INTEGRITY. INNOVATION. INVOLVEMENT.

# FORACO INTERNATIONAL

2018 ANNUAL REPORT

# WORLD LEADING MINERAL & WATER DRILLING SERVICE PROVIDER

## INTEGRITY INNOVATION INVOLVEMENT

For over 50 years, Foraco International SA (TSX:FAR) has been providing mineral and water drilling services around the world. We continue to operate in 22 countries with best in class equipment and an innovative and versatile workforce who are dedicated in their field. It is Foraco's international drilling expertise that allows us to tailor drilling solutions to our customers' needs without compromising quality and service delivery.

Mining customers have come to depend on Foraco's diverse range of drilling services during challenging market conditions that demand efficiency across all levels of operations. Many of these productivity and quality enhancements have direct application in our hydro business, where we proudly drill for water in rural communities and in mining environments.

**DIAMOND CORE**

- **Surface**
- **Underground**
- **Deep Directional Drilling**
- **Air Core**

**ROTARY**

- **Reverse Circulation**
- **Down-the-Hole Hammer**
- **Rotary Air Blast**
- **Large Diameter Bulk Sampling**

**FAR activity by mine stage 2018**

Exploration
Near Mine Exploration
Life of Mine Extension
Water

North America

# VALUE BASED SERVICE DELIVERY

## SAFETY AND CUSTOMER FIRST CULTURE

Foraco customers are loyal customers. They recognize the value that comes from peace of mind and a personal approach to doing business with Foraco. They know we don't compromise on safe work or service quality in-spite of challenging market conditions that impact all stakeholders – which has strengthened relationships even further.

More than ever, we collaborate between regions where we continue to deploy the best people and know-how in the business – wherever they are needed.

# DRILLING IS OUR BUSINESS

## PEOPLE AND TECHNOLOGY

Technical innovations and the best people in the business continue to set Foraco apart from the pack. In 2015, we successfully developed and deployed our first fully wireless remote controlled reverse circulation drill rig, allowing us to remove the crew from the drill and potential harm, without compromising drilling performance – True Innovation.

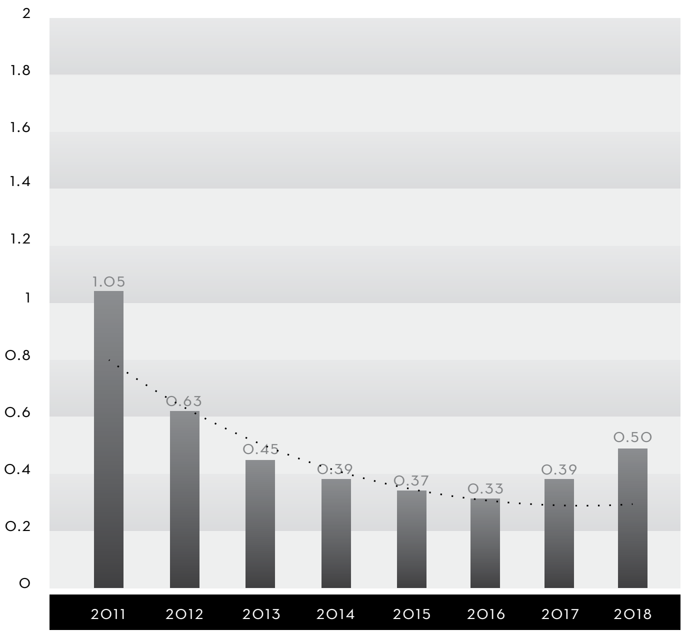
We have developed industry-leading wireless remote drilling technology for reverse circulation drilling and large diameter dewatering packages complete with mechanized road handling.


Russia


# Australia

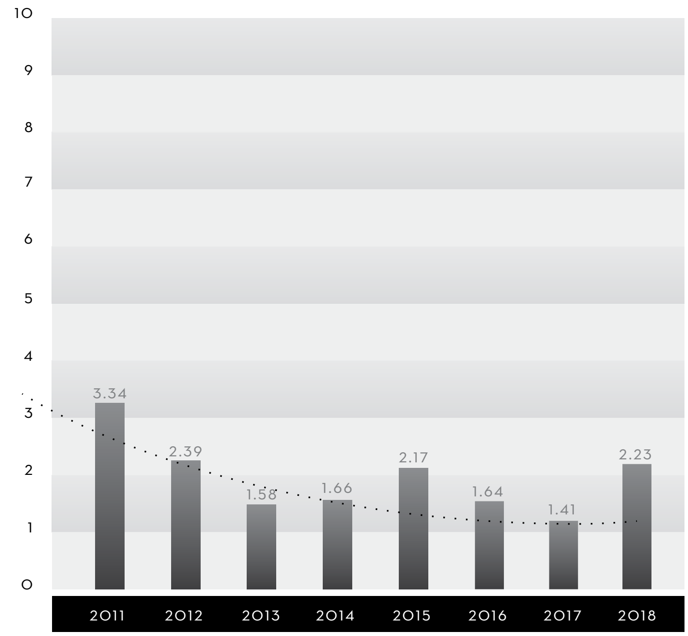
## Lost Time Injury Rate Trend

per 200,000 hrs




## Total Recordable Injury Frequency Rate

per 200,000 hrs





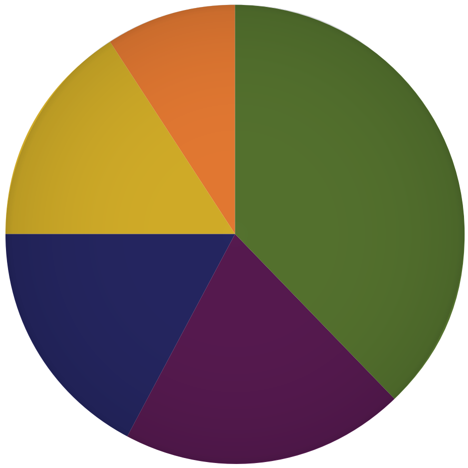
Brazil

# FINANCIAL HIGHLIGHTS

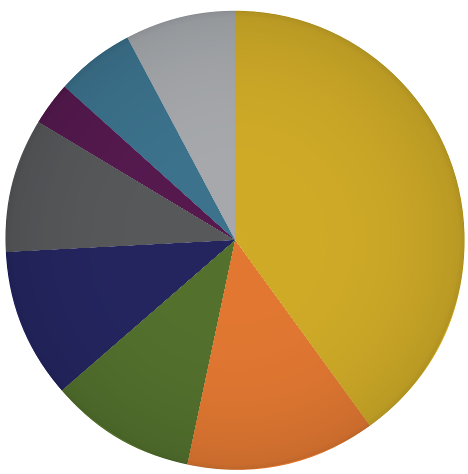
| In US$ Million | FY 2014 Actual | FY 2015 Actual | FY 2016 Actual | FY 2017 Actual | FY 2018 Actual |
|---|---|---|---|---|---|
| Revenue | 185.5 | 137.7 | 115.2 | 135.7 | 180.0 |
| EBITDA | 14.4 | 18.1 | 7.0 | 12.7 | 18.1 |
| EBITDA % | 7.8% | 13.1% | 6.1% | 8.9% | 10.0% |
| Number of Rigs | 302 | 302 | 302 | 302 | 302 |
| Employees | 1,863 | 1,562 | 1,536 | 1,526 | 1,882 |

**Positive EBITDA from more than 20 years and through the downturns**

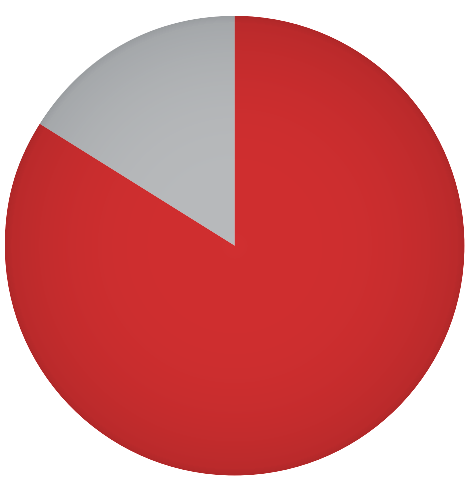
# REGION, COMMODITY & CUSTOMER BASE



- 38% North America
- 20% South America
- 17% Asia Pacific
- 16% Europe
- 9% Africa



- 42% Gold
- 14% Nickel
- 11% Copper
- 11% Iron
- 10% Coal
- 3% Water
- 8% Other



- 84% Majors and Multinational Institutions
- 16% Juniors

# LETTER TO SHAREHOLDERS

Dear fellow Shareholders,

2018 has been an interesting year for commodities in general and the drilling industry in particular.

The International Monetary Fund (IMF) reported a 14% consolidation in base metal prices, after a 46.4% increase since 2016. Gold dipped in 2018 after reaching a 5 years high but recovered in Q4.

Despite this modest performance mining and exploration companies are gradually increasing exploration budgets and resume deferred drilling programs. In March 2019, S&P published its worldwide exploration survey, which reported a 19% increase in exploration spending in 2018. This significant increase shows the recovery is continuing after the 2012 – 2016 recession. S&P also estimated that the mining industry total budget for nonferrous metal exploration was US$10.1 billion compared with US$8.4 billion in 2017 and US$7.3 billion in 2016, marking the second increase in spending since the market peaked in 2012 at US$21.5 billion.

Foraco recorded its second year over year increase in revenue since 2012, with US$180 million in 2018, compared to US$135.7 million in 2017; a 33% increase—73% higher than the exploration market reported growth.

Here are the figures broken down by region:

Revenue in North America increased significantly; up 62% to $US 68.0 million in year 2018 compared to $US 41.9 million in year 2017. The Company benefited from the increased budgets and renewal of long term contracts with many of our major customers reflecting our preferred drilling status. In addition, we've managed to diversify our services through the expansion of our percussive drilling division and deep directionally drilled paste fill holes.

In South America, revenue increased by 19% to $US 36.5 million in 2018, compared to $US 30.6 million in 2017, driven by the award of new contracts in Chile. Market studies state that, in the next few years, South America will be the fastest growing market in the world. We expect to take full advantage of it, given our rigs capacity in the area.

Revenue in EMEA grew by 6% to $US 44.6 million in FY 2018, from $US 42.1 million in year 2017. This increase was led by our activities in Russia (+51%), where we secured two new significant clients and started a new contract in Kazakhstan.

It has been a very difficult year in Africa following a terrorist attack in November, where we lost 8 employees in south east Niger while drilling a deep water well near a refugee camp. All families have been well taken care of and we've made sure that the Company has the best possible field threat intelligence at our disposal. As a consequence of the reallocation of international aid to security measures our historical water business was significantly impacted with revenue declining 21% in the region. We are re-focusing our activity towards mining.

In Asia Pacific, 2018 revenue increased by 47% at $US 31.0 million compared to $US 21.1 million in 2017. After a slow start in the first half of the year, revenue increased stimulated by improvements in the Australian exploration market. We managed to secure a long term contract with one of the leading iron ore producer and have since gained further visibility in this still highly competitive technology driven market. Our wireless remote technology for reverse circulation drilling and large-diameter dewatering rigs are now field proven and we are preparing to roll out more rigs pending the award of additional long term contracts.

Our gross margin for 2018, which includes depreciation within cost of sales, increased by 55%, from $US14.1 million (10.4% of revenue) to $US 21.9 million (or 12.2% of revenue) in year 2017. Our profitability is yet to return to more sustainable level, as we worked most of the year with defensive market pricing which were set in 2017.

In year 2018, total Capex amounted to $US 13.0 million. We acquired 8 new rigs during the year linked to new contracts and 8 rigs were retired from service. Total rig count remains stable at 302.

In 2019, we expect to continue to grow, as we recorded another significant increase in our year end order book which now stands at $US 266 million— an increase of 33% year to year, including $US 138 million to be delivered in 2019.

With the improved market conditions and increased global rig utilization, we've managed to increase our prices from levels set at the lowest point of the last recession. We have restored most of our contracts to profitability at sustainable price levels giving us strong expectations for 2019 in terms of Foraco's overall profitability.

As you will note, our growth rate has not been consistent between regions, with North America clearly leading the way, followed by Australia and Russia. These are the regions where we increased our market share as we captured more activity from our customer base.

More recently, Brazil is showing some encouraging signs of recovery. Latin America is also showing some significant improvements in activity and pricing. West Africa continues to offer good potential and we remain committed to this market in spite of the recent challenges.

Going forward (market permitting) we will continue to deploy our strategy to consolidate our position by strengthening our customer relations as we diversify and increase the scope of our services. This will result in increased access to markets linked to operating mines or mine expansion and are much less volatile than our traditional exploration business.

Finally, the shared goal that everybody in the Company is focused and committed to is to continue to restore Foraco as an industry leading and profitable Company while deleverage our balance sheet as quickly as possible.

On behalf of our dedicated employees, senior management and Foraco's Board of Directors, we thank you for your continued support

Sincerely,

Daniel Simoncini and Jean-Pierre Charmensat

# MANAGEMENT'S DISCUSSION AND ANALYSIS

The following Management's Discussion and Analysis ("MD&A") relates to the results of operations, liquidity and capital resources of Foraco International S.A. ("Foraco" or the "Company"). This report has been prepared by Management and should be read in conjunction with the Company's annual consolidated financial statements for the year ended December 31, 2018, including the notes thereto. These consolidated financial statements were prepared in accordance with International Financial Reporting Standards ("IFRS"). Following the decision taken by the Accounting Standards Board, IFRS became the accounting standards for all issuers in Canada on January 1, 2011. The Company adopted IFRS and made an explicit and unreserved statement that its consolidated financial statements comply with IFRS in 2004.

Except as otherwise stated, all amounts presented in this MD&A are denominated in US Dollars ("US$"). The discussion and analysis within this MD&A are as of March 29, 2019.

## Caution concerning forward-looking statements

This document may contain "forward-looking statements" and "forward-looking information" within the meaning of applicable securities laws. These statements and information include estimates, forecasts, information and statements as to Management's expectations with respect to, among other things, the future financial or operating performance of the Company and capital and operating expenditures. Often, but not always, forward-looking statements and information can be identified by the use of words such as "may", "will", "should", "plans", "expects", "intends", "anticipates", "believes", "budget", and "scheduled" or the negative thereof or variations thereon or similar terminology. Forward-looking statements and information are necessarily based upon a number of estimates and assumptions that, while considered reasonable by management, are inherently subject to significant business, economic and competitive uncertainties and contingencies. Readers are cautioned that any such forward-looking statements and information are not guarantees and there can be no assurance that such statements and information will prove to be accurate and actual results and future events could differ materially from those anticipated in such statements. Important factors that could cause actual results to differ materially from the Company's expectations are disclosed under the heading "Risk Factors" in the Company's Annual Information Form dated March 29, 2019, which is filed with Canadian regulators on SEDAR (www.sedar.com). The Company expressly disclaims any intention or obligation to update or revise any forward-looking statements and information whether as a result of new information, future events or otherwise. All written and oral forward-looking statements and information attributable to Foraco or persons acting on our behalf are expressly qualified in their entirety by the foregoing cautionary statements.

## This MD&A is presented in the following sections:

- Business Overview
- Consolidated Financial Highlights
- Results of Operations
- Seasonality
- Effect of Exchange Rates
- Liquidity and Capital Resources
- Related-Party Transactions
- Capital Stock
- Critical Accounting Estimates
- Non-IFRS Measures
- Litigation and claims
- Subsequent Events
- Outlook
- Risk Factors

## BUSINESS OVERVIEW

Headquartered in Marseille, France, Foraco is a worldwide drilling service provider with presence in 22 countries and 5 continents. On December 31, 2018, the Company had 1,882 employees and operated 302 drill rigs worldwide, providing a diverse range of drilling services to its customer base. The Company has developed and acquired significant expertise in destructive and non-destructive drilling, as well as proprietary drill rig design capabilities. These capabilities allow Foraco to tailor solutions to meet the specific conditions and drilling requirements of certain customers, such as mining companies, governmental organizations and international development funds. Through its global operations the Company services a range of industries focusing on mining and water.

Foraco specializes in drilling in harsh environments and isolated locations including arctic, desert and mountainous regions, generally under conditions where operations are challenged by logistical matters and geographic barriers. The Company's engineers and technicians have developed special drilling methods which respond to the requirements of certain areas in which geology prevents the use of standard techniques and equipment. The Company has specialized equipment for, among other uses, helicopter based drilling campaigns, combination rigs able to perform multi drilling technique contracts, desert suited rigs and large diameter core sampling systems.

## CONSOLIDATED FINANCIAL HIGHLIGHTS

### *Financial Highlights*

| **(In thousands of US$)** *(audited)* | **Year ended December 31, 2018** | **2017** |
|---|---|---|
| **Revenue** | **180,046** | **135,737** |
| **Gross profit / (loss) (1)** | **1 21,885** | **14,132** |
| *As a percentage of sales* | *12.2%* | *10.4%* |
| **EBITDA** | **18,081** | **12,107** |
| *As a percentage of sales* | *10.0%* | *8.9%* |
| **Operating profit / (loss)** | **1,114** | **(6,740)** |
| *As a percentage of sales* | *0.6%* | *-5.0%* |
| **Profit / (loss) for the period** | **(10,630)** | **(11,286)** |
| Attributable to: | | |
| Equity holders of the Company | (10,616) | (10,740) |
| Non-controlling interests | (14) | (546) |
| **EPS (in US cents)** | | |
| Basic | (11.83) | (11.98) |
| Diluted | (11.83) | (11.98) |

**(1) includes amortization and depreciation expenses related to operations.**

## YEAR ENDED DECEMBER 31, 2018 – FY 2018

### Revenue

- FY 2018 revenue amounted to US$ 180.0 million compared to US$ 135.7 million in FY 2017, an increase of 33%.

### Profitability

- FY 2018 gross margin including depreciation within cost of sales was US$ 21.9 million (or 12.2% of revenue) compared to US$ 14.1 million (or 10.4% of revenue) in FY 2017. This improvement is mainly due to performance on contracts and a better absorption of fixed operational costs linked to the revenue increase.
- FY 2018 EBITDA amounted to US$ 18.1 million (or 10.0% of revenue) compared to US$ 12.1 million (or 8.9% of revenue) last year.

### Net Debt

- The net debt was US$ 130.4 million as at December 31, 2018 compared to US$ 122.7 million as at December 31, 2017. The increase is mainly attributable to higher working capital requirements linked to the increased activity, partially compensated by a favorable exchange rate.

## Order Book

- As at December 31, 2018, the Company's order backlog for continuing operations was US$ 266.0 of which US$ 133.9 million is expected to be executed during the FY 2019. Last year at the same period, the order backlog for continuing operations was US$ 200.8 million of which US$ 127.7 million was expected to be executed during FY 2018.

## RESULTS OF OPERATIONS

### *Comparison of the years ended December 31, 2017 and December 31, 2018*

### Revenue

The following table provides a breakdown of the Company's revenue for FY 2018 and FY 2017 by reporting segment and geographic region:

| **(In thousands of US$)** *(audited)* | **FY 2018** | **% change** | **FY 2017** |
|---|---|---|---|
| **Reporting segment** | | | |
| Mining | 174,940 | 37% | 127,944 |
| Water | 5,106 | -34% | 7,793 |
| ***Total revenue*** | ***180,046*** | ***33%*** | ***135,737*** |
| **Geographic region** | | | |
| Europe, Middle East and Africa | 44,603 | 6% | 42,116 |
| South America | 36,479 | 19% | 30,639 |
| North America | 68,012 | 62% | 41,901 |
| Asia Pacific | 30,952 | 47% | 21,081 |
| ***Total revenue*** | ***180,046*** | ***33%*** | ***135,737*** |

FY 2017 revenue amounted to US$ 135.7 million compared to US$ 115.2 million in FY 2016.

FY 2018 revenue amounted to US$ 180.0 million compared to US$ 135.7 million in FY 2017, an increase of 33%.

In EMEA, revenue increased by 6%, to US$ 44.6 million FY 2018 from US$ 42.1 million in FY 2017, as a result of the increased activity in Russia, partially compensated by the decreased activity in France and in Africa.

Revenue in South America increased by 19% to US$ 36.5 million in FY 2018 (US$ 30.6 million in FY 2017). The increase is mainly driven by the awards of new contracts in Chile.

Revenue in North America strongly increased by 62% to US$ 68.0 million in FY 2018 from US$ 41.9 million in FY 2017. Compared to last year, the Company gained new contracts with major and junior companies and increased activity on ongoing contracts in an overall growing market.

In Asia Pacific, FY 2018 revenue amounted to US$ 31.0 million, an increase of 47% mainly due to new contracts initiated in the second half of 2017 in Australia.

### Gross Profit

The following table provides a breakdown of the Company's gross profit by reporting segment for FY 2018 and FY 2017:

| **(In thousands of US$)** *(audited)* | **FY 2018** | **% change** | **FY 2017** |
|---|---|---|---|
| **Reporting segment** | | | |
| Mining | 22,101 | 48% | 14,920 |
| Water | (216) | n/a | (788) |
| ***Total gross profit / (loss)*** | ***21,885*** | ***55%*** | ***14,132*** |

FY 2018 gross margin including depreciation within cost of sales increased by 55% compared to last year. As a percentage of revenue, the gross margin increased from 10.4% to 12.2%. This improvement is mainly due to performance on contracts and a better absorption of fixed operational costs linked to the revenue increase.

### Selling, General and Administrative Expenses

The following table provides an analysis of the selling, general and administrative expenses (SG&A):

| **(In thousands of US$)** *(audited)* | **FY 2018** | **% change** | **FY 2017** |
|---|---|---|---|
| Selling, general and administrative expenses | 20,771 | 2% | 20,407 |

Despite the higher level of activity, SG&A only increased by US$ 0.4 million compared to last year. As a percentage of revenue, SG&A decreased from 15.0% in FY 2017 to 11.5% in FY 2018.

### Operating Result

The following table provides a breakdown of the Company's operating result for FY 2018 and FY 2017 by reporting segment:

| **(In thousands of US$)** *(audited)* | **FY 2018** | **% change** | **FY 2017** |
|---|---|---|---|
| **Reporting segment** | | | |
| Mining | 2,234 | n/a | (4,785) |
| Water | (1,120) | n/a | (1,955) |
| ***Total operating profit / (loss)*** | ***1,114*** | ***n/a*** | ***(6,740)*** |

The operating profit was US$ 1.1 million, a US$ 7.9 million improvement compared to FY 2017 as a result of increased activity, improved gross margin rate and stabilization of SG&A expenses.

### Finance Costs

Net financial expenses increased to US$ 8.9 million in FY 2018 from US$ 6.2 million in FY 2017. 2018 interests include the full year impact of the new Bonds issued in May 2017 for an amount US$ 19.8 million and the partial impact of the 2018 Bonds issuance for a total amount US$ 5.9 million.

### Income Tax

In FY 2018, the corporate income tax was a charge of US$ 2.9 million compared to a profit of US$ 1.6 million last year. This income tax charge corresponds to taxable income in profitable jurisdictions.

## SEASONALITY

The worldwide presence of the Company reduces its overall exposure to seasonality and its subsequent influence on business activity. In West Africa, most of the Company's operations are suspended between July and October due to the rainy season. In Canada, seasonal slow periods occur during the winter freeze and spring thaw or break-up periods. Depending on the latitude, this can occur anytime from October until late December (freezing) and from mid-April through to mid-June (break-up). Operations at mining sites continue throughout the year. Russia is also affected by the winter period during which operations are suspended. In Asia Pacific and in South America, where the Company operates exclusively in the Mining segment, a seasonal slowdown in activity occurs around year-end during the vacation period. Certain contracts are also affected in Chile in July and August when the winter season peaks.

## EFFECT OF EXCHANGE RATES

The Company operates in a very large number of countries with functional currencies (Euros, Canadian Dollars, Australian Dollars, Chilean Pesos, Brazilian Reals and Russian Rubles) different than the US Dollar, the presentation currency of the Group. The significant variation of the US Dollar over the last quarters has had a substantial impact on the Company's financial statements. The impact of exchange rates on each significant line item of the income statement is reported above.

However, the Company mitigates its net exposure to foreign currency fluctuations by balancing its costs, revenues and financing in local currencies, resulting in a natural hedge.

The exchange rates against the US$ for the periods under review are as follows:

| | Average FY 2018 | Average FY 2017 | Closing Q4 2018 | Closing Q4 2017 |
|---|---|---|---|---|
| € | 0.85 | 0.89 | 0.87 | 0.83 |
| CAD | 1.30 | 1.30 | 1.36 | 1.26 |
| AUD | 1.34 | 1.31 | 1.42 | 1.28 |
| CLP | 646 | 652 | 693 | 614 |
| BRL | 3.69 | 3.19 | 3.88 | 3.25 |
| RUB | 62.99 | 58.36 | 69.35 | 57.61 |

## LIQUIDITY AND CAPITAL RESOURCES

The following table provides a summary of the Company's cash flows for FY 2018 and FY 2017:

| **(In thousands of US$)** | **FY 2018** | **FY 2017** |
|---|---|---|
| **Cash generated by operations before working capital requirements** | **18,194** | **12,020** |
| Working capital requirements | (6,847) | 4 |
| Income tax paid | (2,404) | (249) |
| Purchase of equipment in cash | (12,743) | (9,546) |
| **Free Cash Flow before debt servicing** | **(3,800)** | **2,229** |
| Debt variance | 5,301 | 9,761 |
| Interests paid | (3,374) | (3,485) |
| Dividends paid to minority shareholders in affiliates | (487) | (516) |
| Acquisition of treasury shares | (77) | (37) |
| **Net cash generated / (used in) financing activities** | **1,363** | **5,723** |
| **Net cash variation** | **(2,436)** | **7,952** |
| Foreign exchange differences | (1,051) | 419 |
| **Variation in cash and cash equivalents** | **(3,487)** | **8,371** |
| **Cash and cash equivalents at the end of the year** | **11,088** | **14,575** |

In FY 2018, the cash generated from operations before working capital requirements amounted to US 18.2 million compared to US$ 12.0 million in FY 2017.

Due to increased activity in the year of 2018, the level of working capital requirements was US$ 6.8 million (nil in 2017).

During the year, Capex amounted to US$ 12.8 million in cash, compared to US$ 9.5 million in cash in FY 2017. The Company acquired eight new rigs during the year linked to new contracts signed. Eight rigs were retired from service, the total rig count remains at 302.

As a result of the working capital requirements and the Capex, free cash flow before debt servicing was US$ (3.8) million in FY 2018 compared to US$ 2.2 million in FY 2017.

As at December 31, 2018, cash and cash equivalents totaled US$ 11.1 million compared to US$ 14.6 million as at December 31, 2017. Cash and cash equivalents are mainly held at or invested within top tier financial institutions.

As at December 31, 2018, net debt amounted to US$ 130.4 million (US$ 131.0 million as at September 30, 2018, US$ 127.2 million as at June 30, 2018, US$ 135.3 million as at March 31, 2018 and US$ 122.7 million as at December 31, 2017).

Bank guarantees as at December 31, 2018 totaled US$ 1.7 million compared to US$ 4.0 million as at December 31, 2017. The Company benefits from a confirmed contract guarantee line of € 12.7 million (US$ 14.5 million).

### Going Concern

Going concern is assessed based on internal forecasts and projections that take into account the trend in the business in which the Company operates and its capacity to address the market and deliver its services. On the basis of the above, the Company believes that it will have adequate financial resources to continue in operation for a period of at least twelve months. Accordingly, the Company continues to adopt the going concern basis in preparing its financial statements.

On May 11, 2017, the Company completed its debt reorganization consisting (i) in a new money injection of €23 million (US$ 25 million) in the form of bonds with a 5-year term, including €18 million (US$ 19.8 million) available at closing, and (ii) in the postponing of the instalment of most of the Company's existing long-term financing which takes the form of 5-year term subordinated bonds. On April 26, 2018 and then on December 17th 2018, the Company drew an additional € 2.5 million for a total amount of € 5.0 million corresponding to the second tranche of the bonds.

As part of the debt reorganization, certain key financial covenants were set including; minimum cash, leverage ratio and limitation to capital expenditure. A waiver was obtained in March 2018 to offset the negative impact of the exchange rates and of the working capital requirements linked to the increased activity. As at December 31, 2018, the Company met its covenants. In December 2018, a new set of covenants applicable to the year 2019 was agreed with the lenders. Nothing indicates that the Company will not respect its covenants going forward within the next 12 month period.

### Impairment Testing

The Company performed impairment tests at the level of each geographic region using the carrying value of the Company's long lived assets based on expected discounted cash flows as at December 31, 2018. Based on the internal forecasts and projections made, the expected discounted future cash flows exceeded each of the long-lived asset's carrying amount for each geographic region and accordingly no impairment was recognized as at December 31, 2018.

### Cash Transfer Restrictions

Foraco operates in a number of different countries where cash transfer restrictions may exist. The Company organizes its business so as to ensure that the majority of payments are collected in countries where there are no such restrictions. No excess cash is held in countries where cash transfer restrictions exist.

## RELATED-PARTY TRANSACTIONS

For details of related-party transactions, please refer to Note 28 of the annual consolidated financial statements.

## CAPITAL STOCK

As at December 31, 2018, the capital stock of the Company amounted to US$ 1,772 thousand, divided into 89,951,798 common shares. The common shares of the Company are distributed as follows:

| | Number of shares | % |
|---|---|---|
| Common shares held directly or indirectly by principal shareholders | 37,594,498 | 41.79% |
| Common shares held directly or indirectly by individuals in their capacity as members of the Board of Directors* | 1,161,754 | 1.29% |
| Common shares held by the Company** | 16,269 | 0.02% |
| Common shares held by the public | 51,179,277 | 56.90% |
| **Total common shares issued and outstanding** | **89,951,798** | |
| Common shares held by the Company | (16,269) | |
| **Total common shares issued and outstanding excluding shares held by the Company** | **89,935,529** | |

** In the table above, the shares owned indirectly are presented as an amount corresponding to the pro rata of the ownership interest.*

*** 16,269 common shares are held by the Company to meet the Company's obligations under the employee free share plan and for the purposes of potential acquisitions.*

## CRITICAL ACCOUNTING ESTIMATES

The unaudited condensed interim consolidated financial statements have been prepared in accordance with IFRS. The Company's significant accounting policies are described in Note 2 to the annual consolidated financial statements. As required by IAS 1, the depreciation of property, plant and equipment related to operations is included within cost of sales.

## NON-IFRS MEASURES

EBITDA represents Net income before interest expense, income taxes, depreciation, amortization and non-cash share based compensation expenses. EBITDA is a non-IFRS quantitative measure used to assist in the assessment of the Company's ability to generate cash from its operations. The Company believes that the presentation of EBITDA is useful to investors because it is frequently used by securities analysts, investors and other interested parties in the evaluation of companies in the drilling industry. EBITDA is not defined in IFRS and should not be considered to be an alternative to Profit for the period or Operating profit or any other financial metric required by such accounting principles.

Net debt corresponds to the current and non-current portions of borrowings and the consideration payable related to acquisitions, net of cash and cash equivalents.

Reconciliation of EBITDA is as follows:

| **(In thousands of US$)** *(audited)* | FY 2018 | FY 2017 |
|---|---|---|
| Operating profit / (loss) | 1,114 | (6,740) |
| Depreciation expense | 16,787 | 18,717 |
| Non-cash employee share-based compensation | 180 | 130 |
| ***EBITDA*** | ***18,081*** | ***12,107*** |

## LITIGATION AND CLAIMS

Generally, the Company is subject to legal proceedings, claims and legal action arising in the ordinary course of business. The Company's Management does not expect that the ultimate costs to resolve these matters will have a material adverse effect on the Company's consolidated financial position, results of operations or cash flows.

## SUBSEQUENT EVENTS

There are no post balance sheet events to be reported.

## OUTLOOK

The Company's business strategy is to actively participate in the current growth phase of the metallic commodities cycle through the development and optimization of its services offered across its range of geographical regions, industry sectors, commodities and customers. The Company expects it will execute its strategy primarily through organic growth in the near future.

As at December 31, 2018, the Company's order backlog for continuing operations was US$ 266.0 million of which US$ 133.9 million is expected to be executed during the FY 2019. Last year at the same period, the order backlog for continuing operations was US$ 200.8 million of which US$ 127.7 million was expected to be executed during FY 2018. The Company's order backlog consists of sales orders. Sales orders are subject to modification by mutual consent and in certain instances orders may be revised by customers. As a result, the order backlog of any particular date may not be indicative of actual operating results for any subsequent period.

## DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROL OVER FINANCIAL REPORTING

Pursuant to NI 52-109, the directors of the Company are required to certify annually as to the design and operations of their (i) disclosure controls and (ii) internal controls over financial reporting.

Disclosure controls and procedures are designed to provide reasonable assurance that all relevant information is gathered and reported on a timely basis so that appropriate decisions can be made regarding public disclosure. It covers the preparation of Management's Discussion and Analysis and the Annual Consolidated Financial Statements. Internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with International Financial Reporting Standards (IFRS).

The section below is the result of an analysis carried out in conjunction with the management, the Audit Committee and the various employees involved in the control activity within the Company.

### *Internal Control Framework*

Internal control is a process implemented by management with the objective of ensuring (i) the effectiveness and efficiency of the Company's operations, (ii) the reliability of financial reporting and disclosures, and (iii) compliance with applicable laws and regulations, including those promoted by the Toronto Stock Exchange (TSX).

The organization of the internal control environment of the Company is based upon the Internal Control – Integrated Framework, issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

The inherent limitation in all control systems are such that they can provide only reasonable, not absolute, assurance that all control issues and instances of fraud or error, if any, within the Company have been detected.

### *Responsibilities over Internal Control*

The Company's Board of Directors is the primary sponsor of the internal control environment. The Audit Committee, the Compensation Committee and the Corporate Governance and Nominating Committee are the specific bodies acting in the field of internal control and reporting to the Board of Directors. These committees comprise a majority of independent members.

### Audit Committee

The Audit Committee meets at least every quarter before the Board of Directors meeting authorizing for issuance the quarterly and annual consolidated financial statements. The main responsibilities of the Audit Committee are the examination of the quarterly and annual financial statements including related disclosures, the internal control environment and the oversight of the work performed by the external auditors, as well as the follow up of the agreement with the existing banks and new lenders. The question of internal control over financial reporting is a core subject discussed by the Audit Committee. During 2018 financial year, the Audit Committee met six times.

### Compensation Committee

The principal responsibilities of the Compensation Committee are the examination of the Company's remuneration policy, in particular changes in the global payroll, and the review of the collective and individual objectives. The Compensation Committee meets at least once a year. During 2018 financial year, the Compensation Committee met twice.

### Corporate Governance and Nominating Committee

The Corporate Governance and Nominating Committee meets at least every quarter before the Board of Directors. It reports to the Board of Directors and is in charge of the supervision of the governance of the Company and its relationship with senior management. The Corporate Governance and Nominating Committee met four times during the 2018 financial year.

### *Internal Control Organization within the Company*

The Company operates in various different countries worldwide and has organized its internal reporting process into a monthly centralized system which allows the flows of relevant operating and financial data upstream to management. The subsidiaries report under standardized forms which are prepared in accordance with IFRS. These forms include financial information such as detailed income statement data, cash flow and working capital data, capital expenditures and other relevant operational data. This reporting, combined with a comprehensive budgeting process and systematic reforecasting, reflects the latest operating conditions and market trends and allows management to perform thorough variance analysis. Management considers that this monthly reporting process provides a reasonable assurance over the monitoring of its operating and financial activities and an effective tool for the operating decision makers.

The financial controlling function is organized by region, internal control being a significant part of the regional controllers' duties. Timely on site reviews are performed by operating and financial representatives from corporate. Considering this organization, there is no dedicated internal control department.

In 2018, the Company continued to strengthen the internal control processes in all locations and enforced the implementation of Group procedures. Specific attention was paid to processes such as the follow-up of contract margins at completion, receivables and treasury.

### *Approach Implemented by the Company*

The Company implements an approach consisting of (i) evaluating the design of its control environment over financial reporting and (ii) documenting the related control activities and key controls in a risk control matrix. This approach is implemented at every significant location of the Company. Management also focuses on the integration of newly acquired businesses over which the Company's two step approach on internal control is implemented within a reasonable time period.

The Company views its internal control procedure as a process of continuous improvement and will make changes aimed at enhancing the effectiveness of its internal control and to ensure that processes evolve with the business.

There were no changes in internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

The Company updated its risk assessment in 2017 which consisted of evaluating the likelihood and the magnitude of the risks to which it is exposed. The conclusions were used to assess the adequacy of the Company's risk control matrix. The assessment did not reveal any significant deficiencies in the design of the Company's controls.

The Company has evaluated the effectiveness of the internal control procedures over financial reporting as at December 31, 2018 and has concluded that, subject to its inherent limitations, these were effective at a reasonable assurance level. The Company has evaluated the effectiveness of the Company's disclosure controls and concluded that, subject to its inherent limitations, the disclosure controls were effective for the year ended December 31, 2018.

## RISK FACTORS

For a comprehensive discussion of the important factors that could impact the Company's operating results, please refer to the Company's Annual Information Form dated March 29, 2019, under the heading "Risk Factors", which has been filed with Canadian regulators on SEDAR (www.sedar.com).

**FORACO INTERNATIONAL**

Société anonyme

26, Plage de l'Estaque
13016 Marseille

## Statutory auditor's report on the consolidated financial statements

### *For the year ended December 31st, 2018*

To the Shareholders of Foraco International,

OPINION

We have audited the consolidated financial statements of Foraco International SA and its subsidiaries (the Group), which comprise the consolidated statement of financial position as of December 31, 2018, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as of December 31, 2018, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

BASIS FOR OPINION

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report.

We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

| Key audit matter | How our audit addressed the key audit matter |
|---|---|
| IMPAIRMENT OF GOODWILL: | |
| The Company's evaluation of goodwill for impairment involves the comparison of the fair value of each reporting unit to its carrying value. The Company used the discounted cash flow model to estimate fair value, which requires management to make significant estimates and assumptions related to forecasts of future revenues and operating margins, and discount rates. Changes in these assumptions could have a significant impact on either the fair value, the amount of any goodwill impairment charge, or both.<br><br>As disclosed in note 2.7, the Group carries out impairment tests on goodwill, annually or when events or changes in circumstances indicate that the carrying amount may not be recoverable. Goodwill amounts to $78.2M as of December 31, 2018.<br><br>We considered the valuation of goodwill to be a key audit matter for the following reasons:<br><br>The materiality of the balance of this account (goodwill representing 34% of total assets of $227M),<br><br>the material judgements made by management to determine the assumptions and estimates underlying the calculations of recoverable amounts in the current uncertain economic conditions in mining services; | We tested management's impairment analysis of goodwill, as well as their assessment of impairment triggers.<br><br>Our audit procedures included:<br><br>➤ assessing the consistency of the model used by management in performing the impairment test as compared to prior years,<br><br>➤ assessing the reasonableness of the assumptions used in performing impairment testing on the basis of (i) the Group's budget, (ii) historical performance and (iii) evidence of the intended use of the assets,<br><br>➤ challenging key assumptions, including the growth rate and the terminal value derived from the Group business plan as well as the discount rate and the inflation rate,<br><br>➤ performing a sensitivity analysis over the key assumptions used in the model in order to assess the potential impact of a range of possible outcomes. |

## Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRSs, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting proces.

## Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters.

We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Marseille, March 29, 2019

The Statutory Auditor

Deloitte & Associés

Christophe PERRAU

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# CONSOLIDATED BALANCE SHEET — ASSETS

| In thousands of US$ | Note | 2018 | 2017 | 2016 |
|---|---|---|---|---|
| **ASSETS** | | | | |
| **Non-current assets** | | | | |
| Property and equipment | (6) | 31,821 | 38,054 | 43,756 |
| Goodwill | (7) | 78,229 | 89,169 | 86,401 |
| Deferred income tax assets | (16) | 28,477 | 31,781 | 26,750 |
| Other non-current assets | (8) | 1,068 | 1,174 | 1,228 |
| | | **139,595** | **160,178** | **158,135** |
| **Current assets** | | | | |
| Inventories, net | (9) | 32,932 | 33,820 | 30,691 |
| Trade receivables, net | (10) | 31,853 | 22,075 | 21,889 |
| Other current receivables | (11) | 11,547 | 13,412 | 13,215 |
| Cash and cash equivalents | (12) | 11,088 | 14,575 | 6,204 |
| | | **87,420** | **83,882** | **71,999** |
| **Total assets** | | **227,015** | **244,060** | **230,134** |

# CONSOLIDATED BALANCE SHEET — EQUITY & LIABILITIES

| In thousands of US$ | Note | 2018 | 2017 | 2016 |
|---|---|---|---|---|
| **EQUITY** | | | | |
| **Capital and reserves attributable to the Company's equity holders** | | | | |
| Share capital | (13) | 1,772 | 1,772 | 1,772 |
| Share premium and retained earnings | (13) | 150,474 | 160,980 | 171,661 |
| Other reserves | (13) | (114,478) | (97,902) | (87,248) |
| | | **37,768** | **64,850** | **86,185** |
| Non-controlling interests | | 3,026 | 4,297 | 5,253 |
| **Total equity** | | **40,794** | **69,147** | **91,438** |
| **LIABILITIES** | | | | |
| **Non-current liabilities** | | | | |
| Borrowings – Non-current portion of long term debt | (14) | 131,863 | 128,451 | 31,270 |
| Deferred income tax liabilities | (16) | 2,870 | 2,108 | 1,953 |
| Provisions for other liabilities and charges | (17) | 388 | 382 | 332 |
| | | **135,121** | **130,941** | **33,555** |
| **Current liabilities** | | | | |
| Trade payables | (19) | 22,361 | 17,695 | 11,458 |
| Other payables | | 17,095 | 14,933 | 12,988 |
| Current income tax liabilities | | 1,540 | 600 | 167 |
| Borrowings – Current portion of long term debt | (14) | 2,740 | 3,078 | 23,934 |
| Borrowings – Current portion of drawn credit lines | (14) | 6,900 | 5,735 | 54,337 |
| Provisions for other liabilities and charges | (17) | 465 | 1,932 | 2,258 |
| **Total current liabilities** | | **51,101** | **43,972** | **105,142** |
| **Total equity and liabilities** | | **227,015** | **244,060** | **230,134** |

# CONSOLIDATED INCOME STATEMENT — BY FUNCTION OF EXPENSE

| In thousands of US$ | Note | 2018 | 2017 | 2016 |
|---|---|---|---|---|
| Revenue | (5) | 180,046 | 135,737 | 115,164 |
| Cost of sales | (20) | (158,161) | (121,605) | (110,654) |
| **Gross Profit** | | **21,885** | **14,132** | **4,510** |
| Selling, general and administrative expenses | (20) | (20,771) | (20,407) | (16,767) |
| Other operating income / (expense), net | (21) | — | (465) | (2,109) |
| **Operating profit / (loss)** | | **1,114** | **(6,740)** | **(14,366)** |
| Finance income | (23) | 74 | 78 | 2,224 |
| Finance expense | (23) | (8,965) | (6,236) | (6,049) |
| **Profit / (loss) before income tax** | | **(7,777)** | **(12,898)** | **(18,191)** |
| Income tax profit / (expense) | (24) | (2,853) | 1,612 | (92) |
| **Profit / (loss) for the year** | | **(10,630)** | **(11,286)** | **(18,283)** |
| Attributable to: | | | | |
| Equity holders of the Company | (25) | (10,616) | (10,740) | (18,014) |
| Non-controlling interests | | (14) | (546) | (269) |
| | | **(10,630)** | **(11,286)** | **(18,283)** |
| Earnings per share for profit / (loss) attributable to the equity holders of the Company during the year (expressed in US cents per share) | | | | |
| —basic | (25) | (11,83) | (11,98) | (20.13) |
| —diluted | (25) | (11,83) | (11,98) | (20.13) |

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

| In thousands of US$ | Attributable to Equity Holders of the Company | | | | | |
|---|---|---|---|---|---|---|
| | Share Capital | Share Premium and Retained Earnings | Other Reserves (see Note 13) | Total | Non-controlling Interests | Total Equity |
| **Balance at January 1, 2016** | **1,772** | **189,505** | **(97,879)** | **93,398** | **5,717** | **99,115** |
| Profit / (loss) for the year | — | (18,014) | — | (18,014) | (269) | (18,283) |
| Other comprehensive income for the year | — | — | 10,636 | 10,636 | 931 | 11,567 |
| Employee share-based compensation (Note 22) | — | — | 293 | 293 | — | 293 |
| Treasury shares-purchased | — | — | (128) | (128) | — | (128) |
| Exercise of share-based compensation (Note 13) | — | 170 | (170) | — | — | — |
| Dividends declared relating to 2015 | — | — | — | — | (1,126) | (1,126) |
| **Balance at December 31, 2016** | **1,772** | **171,661** | **(87,248)** | **86,185** | **5,253** | **91,438** |
| **Balance at January 1, 2017** | **1,772** | **171,661** | **(87,248)** | **86,185** | **5,253** | **91,438** |
| Profit / (loss) for the year | — | (10,740) | — | (10,740) | (546) | (11,286) |
| Other comprehensive income for the year | — | — | (10,688) | (10,688) | 106 | (10,582) |
| Employee share-based compensation (Note 22) | — | — | 130 | 130 | — | 130 |
| Treasury shares-purchased | — | — | (37) | (37) | — | (37) |
| Exercise of share-based compensation (Note 13) | — | 59 | (59) | — | — | — |
| Dividends declared relating to 2016 | — | — | — | — | (516) | (516) |
| **Balance at December 31, 2017** | **1,772** | **160,980** | **(97,902)** | **64,850** | **4,297** | **69,147** |
| **Balance at January 1, 2018** | **1,772** | **160,980** | **(97,902)** | **64,850** | **4,297** | **69,147** |
| Profit / (loss) for the year | — | (10,616) | — | (10,616) | (14) | (10,630) |
| Other comprehensive income for the year | — | — | (16,570) | (16,570) | (770) | (17,340) |
| Employee share-based compensation (Note 22) | — | — | 181 | 181 | — | 181 |
| Treasury shares-purchased | — | — | (77) | (77) | — | (77) |
| Exercise of share-based compensation (Note 13) | — | 110 | (110) | — | — | — |
| Dividends declared relating to 2017 | — | — | — | — | (487) | (487) |
| **Balance at December 31, 2018** | **1,772** | **150,474** | **(114,478)** | **37,768** | **3,026** | **40,794** |

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

| In thousands of US$ | 2018 | 2017 | 2016 |
|---|---|---|---|
| **Profit / (loss) for the year** | **(10,630)** | **(11,286)** | **(18,283)** |
| **Items that may be recycled subsequently to income statement:** | | | |
| Currency translation differences | (17,340) | (10,582) | 11,568 |
| **Total comprehensive (loss) / income for the year** | **(27,970)** | **(21,868)** | **(6,715)** |
| Attributable to: | | | |
| Equity holders of the Company | (27,186) | (21,428) | (7,377) |
| Non-controlling interests | (784) | (440) | 662 |

## CONSOLIDATED STATEMENT OF CASH FLOW

| In thousands of US$ | Note | 2018 | 2017 | 2016 |
|---|---|---|---|---|
| **Cash flows from operating activities** | | | | |
| **Profit / (loss) for the year** | | **(10,630)** | **(11,286)** | **(18,283)** |
| Adjustments for: | | | | |
| Depreciation, amortization and impairment | (20) | 16,787 | 18,717 | 20,185 |
| Changes in non-current portion of provisions and other liabilities | | 112 | (13) | 163 |
| (Gain) Loss on sale and disposal of assets | | — | (74) | (502) |
| Non-cash share-based compensation expenses | (22) | 181 | 130 | 293 |
| Income tax expense / (profit) | (24) | 2,853 | (1,612) | 92 |
| Finance income and expenses, net | (23) | 8,891 | 6,158 | 3,825 |
| **Cash generated from operations before changes in operating assets and liabilities** | | **18,194** | **12,020** | **5,773** |
| Changes in operating assets and liabilities: | | | | |
| Inventories | | (1,962) | (1,152) | (2,512) |
| Trade accounts receivable and other receivable | | (9,317) | (2,787) | (4,340) |
| Trade accounts payable and other payable | | 4,433 | 3,943 | 1,096 |
| **Cash generated from operations** | | **11,348** | **12,024** | **17** |
| Interest received / (paid) | | (3,374) | (3,485) | (3,530) |
| Income tax paid | | (2,404) | (249) | (797) |
| **Net cash flow from operating activities** | | **5,570** | **8,290** | **(4,310)** |
| **Cash flows from investing activities** | | | | |
| Purchase of Property and equipment and intangible assets (*) | (6) | (12,743) | (9,546) | (6,549) |
| **Net cash used in investing activities** | | **(12,743)** | **(9,546)** | **(6,549)** |
| **Cash flows from financing activities** | | | | |
| Acquisition of treasury shares | (13) | (77) | (37) | (128) |
| Settlement of dispute | | — | — | (934) |
| Repayment of borrowings | (14) | (2,503) | (4,452) | (4,242) |
| Proceeds from issuance of borrowings, net of issuance costs | (14) | 518 | 538 | 4,331 |
| Net increase/(decrease) in bank overdrafts and short-term loans | (14) | 1,423 | (2,631) | 3,521 |
| Proceeds from issuance of bonds, net of issuance costs | (14) | 5,863 | 16,306 | — |
| Dividends paid to Company's shareholders | (26) | — | — | — |
| Dividends paid to non-controlling interests | | (487) | (516) | (1,126) |
| **Net cash generated by / (used in) financing activities** | | **4,737** | **9,208** | **1,422** |
| Exchange differences in cash and cash equivalents | | (1,051) | 419 | (930) |
| **Net increase / (decrease) in cash and cash equivalents** | | **(3,487)** | **8,371** | **(10,367)** |
| Cash and cash equivalents at beginning of the year | (12) | 14,575 | 6,204 | 16,571 |
| **Cash and cash equivalents at the end of the year** | (12) | **11,088** | **14,575** | **6,204** |
| *(*) Excluding purchases financed through finance leases* | | — | — | — |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 1. GENERAL INFORMATION

Foraco International SA (the Company) and its subsidiaries (together, the Group or Foraco Group) trade mainly in the mining, geological and hydraulic drilling sectors.

The principal sources of revenue consist of drilling contracts for companies primarily involved in mining and water exploration. The Group has operations in Europe, Middle East and Africa, North America, South America and Asia Pacific.

The Company is a “société anonyme” incorporated in France. The address of its registered office is 26, Plage de l’Estaque, 13016 Marseille, France.

These consolidated financial statements were authorized for issue by the Board of Directors on March 29, 2019.

The Company is listed on the Toronto Stock Exchange (TSX) under the symbol “FAR”.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all periods presented, unless otherwise stated.

### 2.1 Basis of Preparation

The consolidated financial statements of Foraco Group have been prepared in accordance with International Financial Reporting Standards (IFRS).

The consolidated financial statements have been prepared under the historical cost convention except for certain financial assets recognized at fair value through profit and loss.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group’s accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 4.

Except otherwise stated, all amounts are presented in thousands of US$.

The Group is a drilling service provider and as such IFRS 6, ‘Exploration for and evaluation of mineral resources’ is not applicable to its operations.

***Standards, amendments and interpretations to existing standards that were adopted by the Company during the year with no material impact on the consolidated financial statements***

- IFRS 9, Financial instruments – Classification of financial assets and financial liabilities (January 1, 2018)
- IFRS 15, Revenue from contracts with customers (January 1, 2018). The Company applied the simplified transition method, where the cumulative effect of initially applying the Standard is recognised at the date of initial application.
- Annual improvement 2014-2016; amendments to IFRS 1, IFRS 2 and IAS 28

***Standards, amendments and interpretations to existing standards that are not yet mandatory effective and have not been early adopted by the Company***

The following standards and amendments to existing standards have been published and are mandatory for the Group’s accounting periods beginning on or after January 1, 2019, but have not been early adopted by the Group:

- IFRS 16, Leases (January 1, 2019)
- Amendments to IAS 19
- Annual improvement 2015 – 2017; amendments to IFRS 3, IFRS 11, IAS 23 and IAS 12

The adoption of IFRS 16 is expected to result in the recognition on rights-of-use assets and lease liabilities of approximately US4 million.

The application of the other standards and amendments is not expected to have a material impact on the consolidated financial statements.

### 2.2 Consolidation

#### (A) SUBSIDIARIES

Subsidiaries are entities controlled by the Company. The Company controls an entity when it is exposed to, or has the right to variable returns from its involvement with the entity. It also has the ability to affect those returns through its involvement with the entity and through its power over the entity. In addition the Group assesses existence of control where it does not have more than 50% of the voting power but is able to govern the financial and operating policies. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The Group applies the acquisition method to account for business acquisitions. The consideration transferred for the acquisition of a subsidiary is the fair value of the assets transferred, the liabilities incurred by the former owners of the acquiree and the equity interests issued. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The Group recognizes any non-controlling interest in the acquiree on a case by case basis, either at fair value or at the non-controlling interest's proportionate share of the recognized amounts of the acquiree's identifiable net assets.

Acquisition-related costs are expensed as incurred.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is re-measured to fair value at the acquisition date through profit and loss.

Any contingent consideration to be transferred by the Group is recognized at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognized either in profit or loss or as a change to other comprehensive income. Contingent consideration that is classified as equity is not re-measured, and its subsequent settlement is accounted for within equity.

Goodwill is initially measured as the excess of the aggregate of the consideration transferred and the fair value of non-controlling interest over the net identifiable assets acquired and liabilities assumed (Note 7).

Inter company transactions, balances, income and expenses on transactions between group companies are eliminated. Profits and losses resulting from inter-company transactions that are recognized in assets are also eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

A cash generating unit "CGU" is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets.

### (B) TRANSACTIONS WITH NON-CONTROLLING INTERESTS

The effects of all transactions with non-controlling interests have to be recorded in equity if there is no change in control and these transactions no longer result in goodwill or gains and losses. The standard also specifies the accounting when control is lost. Any remaining interest in the entity is re-measured to fair value, and a gain or loss is recognised in profit or loss.

## 2.3 Segment Reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the management (Chief Executive Officer and vice Chief Executive Officer).

The Group reports its financial performance based on its business segments. Segment reporting disclosures are provided in Note 5.

## 2.4 Foreign Currency Translation

### (A) FUNCTIONAL AND PRESENTATION CURRENCY

Items included in the consolidated financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). In accordance with IAS 21.38, the Group has elected to report its consolidated financial statements using the US Dollar as its presentation currency.

### (B) TRANSACTIONS AND BALANCES

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions' valuation where items are re-measured. The exchange rates prevailing at the dates of the transactions are approximated by a single rate per currency for each month (unless these rates are not reasonable approximations of the cumulative effect of the rates prevailing on the transaction dates). Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the income statement except when deferred in other comprehensive income as qualifying net investment hedges.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the income statement within finance income or expense. All other foreign exchange gains and losses are presented in the income statement within 'other operating income / (expense), net.

### (C) GROUP COMPANIES

The results and financial position of all the Group entities that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

(i) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

(ii) income and expenses for each statement of income are translated at a monthly average exchange rate (unless this rate is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and

(iii) all resulting exchange differences are recognized in other comprehensive income and as a separate component of equity within “Other reserves”.

On consolidation, exchange differences arising from the translation of the net investment in foreign operations, and of borrowings and other currency instruments designated as hedges of such investments, are recorded in shareholders’ other comprehensive income. When a foreign operation is partially disposed of or sold, exchange differences that were recorded in other comprehensive income are recognized in the income statement as part of the gain or loss on the sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and are translated at the closing rate.

## 2.5 Property and Equipment

Property and equipment are stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset’s carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. Major refurbishment work and improvements are capitalized with the carrying amount of the replaced part derecognized. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred. Borrowing costs are capitalized as part of the cost of property and equipment. There was no significant borrowing cost capitalized over the periods presented.

Depreciation of property and equipment is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful life (Note 6).

The useful lives are as follows:

Buildings................................................................ 10 years

Drills....................................................................... 3  to 10 years

Other drilling equipment....................................... 1 to 5 years

Automotive equipment......................................... 3 to 5 years

Office equipment and furniture ............................ 2 to 5 years

The assets’ residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting period.

When the Group leases assets under the terms of a long-term contract or other agreements that substantially transfer all of the risks and rewards of ownership to the Group, the value of the leased property is capitalized and depreciated (as described above) and the corresponding obligation is recorded as a liability within borrowings.

An asset’s carrying amount is written down immediately to its recoverable amount if the asset’s carrying amount is greater than its estimated recoverable amount (see Note 2.7).

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within ‘Other operating income / (expense), net in the income statement.

## 2.6 Intangible Assets

### GOODWILL

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the Group’s share of the identifiable net assets acquired, is recorded as goodwill. Goodwill on acquisitions of subsidiaries is presented on the consolidated balance sheet under the line item “Goodwill”.

Goodwill is tested annually for impairment (or when events or changes in circumstances indicate a potential impairment) and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose identified according to operating segment (see Note 5).

## 2.7 Impairment of Non-financial Assets

Assets that have an indefinite useful life, for example goodwill, are not subject to amortization and are tested annually for impairment. Assets that are subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

## 2.8 Financial Assets

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period. These are classified as non-current assets. Loans and receivables originated by the Group are included in trade and other current receivables in the consolidated balance sheet.

The Group holds certain financial assets presented within cash and cash equivalents that are treated as financial assets at fair value with changes recognized through net income.

## 2.9 Derivative Financial Instruments and Hedging Activities

Derivatives are initially recognized at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value.

The Group does not enter into hedging activities.

## 2.10 Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the statement of income within operating expenses on a straight-line basis over the period of the lease.

Where the Group has substantially all the risks and rewards of ownership, the lease is classified as finance lease. Finance leases are capitalized at the lease's commencement date at the lower of the fair value of the leased property and the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding obligations, net of finance charges, are included in borrowings. The interest element of the finance cost is charged to the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases is depreciated over the shorter of the useful life of the asset and the lease term.

## 2.11 Inventories

The Group maintains an inventory of operating supplies and drill consumables such as bits, additives and chunks.

Inventories are stated at the lower of cost and net realizable value. Cost is determined using the average weighted unit cost method. It excludes borrowing costs. Net realizable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

## 2.12 Revenue Recognition

Revenue from services rendered is recognised in the income statement over time. The revenue is generated through contracts in the mining and water industries. A typical drilling contract for Foraco specifies the depth of drilling required, the duration of the project and the scope and conditions of work to be undertaken. Customers are typically charged on a rate per-meter drilled basis, which is the Company's principal measure of performance in both mining and water contracts. Drilling work is periodically approved by customers. The amount of revenue is not considered to be reliably measurable until all contingencies relating to services rendered have been resolved. Accordingly, variable consideration is recognised when approved. Revenue is shown net of value-added tax, returns, rebates and discounts and after eliminating sales within the Group.

Contracts in progress at the closing date are accounted for using the percentage of completion method whereby revenues and directly attributable costs are recognized in each period based on the proportion that contract costs incurred for work performed to date bear to the estimated total contract costs including the cost for mobilizing and demobilizing drilling equipment.

When the global income from a contract cannot be reliably estimated, no gross profit is recognized during the period.

Under either of the policies mentioned above, when it is probable that total contract costs will exceed total contract revenue, the expected loss is recognized as an expense immediately. This loss is equal to the total estimated loss on the project minus the loss already accounted for and is first applied against the project's receivables. Any excess is then credited to provisions.

## 2.13 Trade Receivables

Trade receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less provision for impairment. A provision for impairment of trade receivables is established on a case by case basis when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognized in the income statement.

The Group transfers certain receivables to banks as collateral under an assignment of receivables program. As risks and rewards related to the trade receivables have been retained by the Group, accounts receivable are not derecognized and a financial liability is accounted for against the consideration received from the lenders.

## 2.14 Cash and Cash Equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities up to six months or provided that these investments are held to meet short term cash needs and there is no significant risks of change in value as a result of an early withdraw. Bank overdrafts are shown within current liabilities on the consolidated balance sheet.

The Group owns certain highly liquid securities . These investments are classified as financial assets at fair value through profit or loss.

## 2.15 Share Capital

Ordinary shares are classified as equity. The Group has not issued any preference shares.

Incremental costs directly attributable to the issuance of new shares are shown in equity as a deduction, net of tax, from the proceeds.

Where any Group company purchases the Company's equity share capital (treasury shares), the consideration paid, including any directly attributable incremental costs (net of income taxes) is deducted from equity attributable to the Company's equity holders until the shares are cancelled or re-issued. When such shares are subsequently re-issued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, are included in equity attributable to the Company's equity holders.

Dividend distribution to the Company's shareholders is recognized as a liability in the Group's financial statements in the period in which the dividends are approved by the Company's shareholders.

## 2.16 Borrowings

Borrowings are recognized initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortized cost, any difference between the proceeds (net of transaction costs) and the redemption value is recognized in the statement of income over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

## 2.17 Income Tax

The tax expense for the period comprises current and deferred tax. Tax is recognized in the income statement, except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In this case, the tax is also recognized in other comprehensive income or directly in equity.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Group's subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation and establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of goodwill or an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

Deferred income tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

Deferred tax liabilities are determined for the withholding tax due on the reserves of the subsidiaries, when distributions are probable.

## 2.18 Provisions

Provisions for restructuring costs and legal claims are recognized when:

- the Group has a present legal or constructive obligation as a result of past events;
- it is probable that an outflow of resources will be required to settle the obligation; and
- the amount has been reliably estimated.

No restructuring of the Group occurred in the periods presented.

The Group evaluates outflows of resources expected to be required to settle the obligation based on facts and events known at the closing date, from its past experience and to the best of its knowledge. Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to the passing of time is recognized as interest expense.

The Group does not provide for future operating losses, except when such losses result from loss making contracts in accordance with the policy described in note 2.12. The Group had no significant loss making contracts over the periods presented.

## 2.19 Employee Benefits

### (A) PENSION OBLIGATIONS

The Group mainly provides defined contribution plans to its employees. A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity. The Group has no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods. A defined benefit plan, such as the mandatory retirement plan in France, is a pension plan that is not a defined contribution plan. Typically, defined benefit plans define an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation.

The liability recognized in the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the balance sheet date less the fair value of plan assets (if any). The defined benefit obligation is calculated annually using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liability.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are recognized in other comprehensive income in the period in which they arise. Changes in amounts recognized in other comprehensive income are detailed in Note 13.

Changes in laws and regulations that affect the amount of the Group's obligations are accounted for as change in actuarial assumptions. There was no such change that materially affected amounts reported over the periods presented.

For defined contribution plans, the Group pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. The Group has no further payment obligations once the contributions have been paid. The contributions are recognized as employee benefit expense when they are due. Prepaid contributions are recognized as an asset to the extent that a cash refund or a reduction in the future payments is available.

The Group does not provide other post-employment benefits.

### (B) BONUSES

The Group recognizes a liability and an expense for bonuses based on a formula that takes into consideration the Group financial performance. The Group recognizes a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

### (C) SHARE-BASED COMPENSATION

The Group operates a limited number of equity-settled, share-based compensation plans under which the Group receives services from its employees as consideration for equity instruments (free shares see note 22). The fair value of the employee services received in exchange for the grant of the free shares is recognized as an expense. The total amount to be expensed is determined by reference to the fair value of the shares granted determined at grant date.

Non-market vesting conditions, including service conditions are included in assumptions about the number of shares that are expected to vest. The total expense is recognized over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. At the end of each reporting period, the Group revises its estimates of the number of options that are expected to vest based on the non-market vesting conditions. It recognizes the impact of the revision to original estimates, if any, in the income statement, with a corresponding adjustment to equity.

## 2.20 Trade Payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

The trade payables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method.

## 2.21 Earnings Per Share

Basic earnings per share are calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the year. Diluted earnings per share are computed by dividing net income attributable to equity holders of the Company by the weighted average number of shares outstanding, adjusted for the effects of all dilutive potential ordinary shares.

A reconciliation of the weighted average number of ordinary shares outstanding during the period and the weighted average number of shares outstanding, adjusted for the effects of all dilutive potential ordinary shares, is presented in Note 25.

## 3. FINANCIAL RISK MANAGEMENT

The Group's activity exposes it to a variety of financial risks through its activity: currency risk, interest rate risk, credit risk and liquidity risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Group's financial performance. The Group did not enter into derivative financial instruments to cover its exposure over the periods presented.

The Group's cash investment strategy aims to avoid capital risks and reach a global performance level equivalent to the reference free risk interest rate. In order to achieve this objective, the Group contracts certain short term deposits offering guaranteed capital with or without guaranteed interest rate yields.

### 3.1 Company's Risk Exposure

#### (A) CURRENCY RISKS

The Group operates internationally and is therefore exposed to foreign exchange risk on its commercial transactions. A foreign exchange risk arises from future commercial transactions, recognized assets and liabilities and net investments in foreign operations.

Foraco presents its consolidated financial statements in US dollars. The main currencies used by the Group are Euros, Canadian Dollars, US Dollars, Australian Dollars, Brazilian Reals, Russian Rubles and Chilean Pesos.

Specifically, the conversion of the Euro denominated debt in US dollars for consolidation purpose may significantly affect the debt profile. A significant increase in the Euro versus the US dollar may result in the recognition of higher indebtedness in the Company's consolidated financial statements only due to exchange rate variation and may affect the capacity of the Company to meet its financial ratio covenants.

The Group mitigates its exposure to foreign currency fluctuations by balancing its costs, revenues and financing in local currencies, resulting in a natural hedge.

The exchange rates for the periods under review are as follows against the US$:

| | Closing 2018 | Closing 2017 | Closing 2016 | Average 2018 | Average 2017 | Average 2016 |
|---|---|---|---|---|---|---|
| € | 0.87 | 0.83 | 0.95 | 0.85 | 0.89 | 0.90 |
| CAD | 1.36 | 1.26 | 1.35 | 1.30 | 1.30 | 1.33 |
| AUD | 1.42 | 1.28 | 1.38 | 1.34 | 1.31 | 1.35 |
| CLP | 693 | 614 | 665 | 646 | 652 | 682 |
| BRL | 3.88 | 3.31 | 3.25 | 3.69 | 3.19 | 3.49 |
| RUB | 69.35 | 57.61 | 60.80 | 62.99 | 58.36 | 67.02 |

The sensitivity to foreign currencies against US$ fluctuations of the consolidated revenue for the year presented in US$ is summarized as follows (in thousands of US$):

| | As at December 31, 2018 | |
|---|---|---|
| **Effect on revenue of a change** | **+5%** | **-5%** |
| AUD $ / US$ | 1,352 | (1,352) |
| BRL / US$ | 1,252 | (1,252) |
| € / US$ | 1,002 | (1,002) |
| Canadian $ / US$ | 3,401 | (3,401) |
| RUB / US$ | 1,423 | (1,423) |
| CLP / US$ | 535 | (535) |

#### (B) INTEREST RATE RISK

The Group owns certain interest-bearing assets (short term deposit) classified as cash and cash equivalents. However, the Group's income and operating cash flows are substantially independent of changes in market interest rates as the Group has invested in highly liquid deposits with a guaranteed nominal value.

The sensitivity to variable interest rate of short term deposits held by the Group is presented below (in thousands of US$):

| | As at December 31, | | |
|---|---|---|---|
| | **2018** | **2017** | **2016** |
| **Average amount of cash and cash equivalent over the year** | **10,046** | **13,446** | **9,574** |
| Increase in financial income following a 5 b.p. increase | 5 | 7 | 5 |
| Decrease in financial income following a 5 b.p. decrease | (5) | (7) | (5) |

For the purpose of this analysis, the average cash equivalent has been defined as the arithmetical average of closing positions at each quarter end.

Regarding financial liabilities, the Group is not significantly exposed to cash flow risks relating to the fluctuations of interest rates, as main financing sources bear interest at a fixed rate.

### (C) CREDIT RISK

All significant cash and cash equivalents and deposits with banks and financial institutions are spread amongst major financial institutions with investment grade ratings.

The Group assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. Individual risk limits are set for each subsidiary. The utilization of credit limits is regularly monitored.

The Group's broad geographical and customer distribution limits the concentration of credit risk. No single customer accounted for more than 10% of the Group's sales during the year ended December 31, 2018 (no single customer accounted for more than 10% of the Group's sales during the years ended December 31, 2017 and December 31, 2016).

### (D) LIQUIDITY RISK

Prudent liquidity risk management involves maintaining sufficient cash and cash equivalents and short term deposits, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. Due to the cyclical nature of the underlying businesses, management maintains funding flexibility by maintaining availability under committed credit lines.

The maturity analysis for financial liabilities is presented in Note 14.

## 3.2 Country Risk

The expansion into new geographic areas via acquisitions brings geographic and currency risks. In Africa, certain countries have experienced political or social instability. There is a risk that the operations, assets, employees or repatriation of revenue could be impaired by factors specific to the regions in which the Group operates. The Group benefits from insurance coverage to mitigate these inherent risks.

The Group manages its country risk through a number of risk measures and limits, the most important being the regular review of geopolitical conditions and an effective monitoring of liquidity, inventories and equipment potential exposure..

## 3.3 Capital Risk Management

The primary objective of the Group's capital management is to ensure that it maintains a prudent liquidity ratio in order to support its growth strategy and maximize shareholders' value. The Group monitors financial measures presented in Note 5 on an ongoing basis as well as its net cash level (cash and cash equivalents less borrowings) presented in Notes 12 and 14.

## 3.4 Estimation of Fair Value of Financial Assets and Liabilities

IFRS 7 requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

As at December 31, 2018, the Group holds US$ 2,396 thousand of assets at fair value (US$ 1,857 thousand in 2017 and US$ 1,053 thousand in 2016). These assets were valued using quoted prices in active markets (level 1). The Group does not hold any other financial assets at fair value through profit or loss, derivatives or available-for-sale financial assets over the years presented.

The carrying amounts of trade receivables less the impairment provision and trade payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments (see note 14).

### 3.5 Financial Instruments by Category

| | Loans and receivables | Assets at fair value through the profit and loss | Derivatives used for hedging | Available-for-sale | Total |
|---|---|---|---|---|---|
| **December 31, 2018** | | | | | |
| **Assets as per balance sheet** | | | | | |
| Trade and other receivables | 43,400 | — | — | — | **43,400** |
| Cash and cash equivalents | 11,088 | — | — | — | **11,088** |
| **Total** | **54,488** | **—** | **—** | **—** | **54,488** |

| | Liabilities at fair value through the profit and loss | Derivatives used for hedging | Other financial liabilities | Total |
|---|---|---|---|---|
| **Liabilities as per balance sheet** | | | | |
| Borrowings | — | — | 141,503 | **141,503** |
| Trade and other payables | — | — | 39,456 | **39,456** |
| **Total** | **—** | **—** | **180,959** | **180,959** |

| | Loans and receivables | Assets at fair value through the profit and loss | Derivatives used for hedging | Available-for-sale | Total |
|---|---|---|---|---|---|
| **December 31, 2017** | | | | | |
| **Assets as per balance sheet** | | | | | |
| Trade and other receivables | 35,487 | — | — | — | **35,487** |
| Cash and cash equivalents | 14,575 | — | — | — | **14,575** |
| **Total** | **50,062** | **—** | **—** | **—** | **50,062** |

| | Liabilities at fair value through the profit and loss | Derivatives used for hedging | Other financial liabilities | Total |
|---|---|---|---|---|
| **Liabilities as per balance sheet** | | | | |
| Borrowings | — | — | 137,263 | **137,263** |
| Trade and other payables | — | — | 32,627 | **32,627** |
| **Total** | **—** | **—** | **169,890** | **169,890** |

| | Loans and receivables | Assets at fair value through the profit and loss | Derivatives used for hedging | Available-for-sale | Total |
|---|---|---|---|---|---|
| **December 31, 2016** | | | | | |
| **Assets as per balance sheet** | | | | | |
| Trade and other receivables | 35,104 | — | — | — | **35,104** |
| Cash and cash equivalents | 6,204 | — | — | — | **6,204** |
| **Total** | **41,308** | **—** | **—** | **—** | **41,308** |

| | Liabilities at fair value through the profit and loss | Derivatives used for hedging | Other financial liabilities | Total |
|---|---|---|---|---|
| **Liabilities as per balance sheet** | | | | |
| Borrowings | — | — | 109,540 | **109,540** |
| Trade and other payables | — | — | 24,446 | **24,446** |
| **Total** | **—** | **—** | **133,986** | **133,986** |

## 4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

### 4.1 Seasonal Fluctuations

The worldwide presence of the Company reduces its overall exposure to seasonality and its influence on business activity. In West Africa, most of the Company's operations are suspended between July and October due to the rainy season. In Canada, seasonal slow periods occur during the winter freeze and spring thaw or break-up periods. Depending on the latitude, this can occur anytime from October until late December (freezing) and from mid-April through to mid-June (break-up). Operations at mining sites continue throughout the year. Russia is also affected by the winter period during which operations are suspended. In Asia Pacific and in South America, where the Company operates exclusively in the Mining segment, a seasonal slowdown in activity occurs around year-end during the vacation period. Certain contracts are also affected in Chile in July and August when the winter season peaks.

### 4.2 Going Concern

Going concern is assessed based on internal forecasts and projections that take into account the trend in the business in which the Company operates and its capacity to address the market and deliver its services. On the basis of the above, the Company believes that it will have adequate financial resources to continue in operation for a period of at least twelve months. Accordingly, the Company continues to adopt the going concern basis in preparing its financial statements.

On May 11, 2017, the Company completed its debt reorganization consisting (i) in a new money injection of €23 million (US$ 25 million) in the form of bonds with a 5-year term, including €18 million (US$ 19.8 million) available at closing, and (ii) in the postponing of the instalment of most of the Company's existing long-term financing which takes the form of 5-year term subordinated bonds. On April 26, 2018 and then on December 17th 2018, the Company drew an additional € 2.5 million for a total amount of € 5.0 million corresponding to the second tranche of the bonds.

As part of the debt reorganization, certain key financial covenants were set including; minimum cash, leverage ratio and limitation to capital expenditure. A waiver was obtained in March 2018 to offset the negative impact of the exchange rates and of the working capital requirements linked to the increased activity. As at December 31, 2018, the Company met its covenants. In December 2018, a new set of covenants applicable to the year 2019 was agreed with the lenders. Nothing indicates that the Company will not respect its covenants going forward within the next 12 month period.

### 4.3 Deferred Tax Valuation Allowance

The current economic conditions also impact the timing of the recognition of deferred tax assets. The Group's policy is to recognize deferred tax assets only when they can be recovered within a reasonable timeframe. Based on internal forecasts and projections, management has considered that the potential recovery timeframe for deferred tax assets in certain countries would be longer than previously estimated, thus creating a risk that deferred tax assets may be unused. As a general rule, the Group recognizes deferred tax assets only when they can be used against taxable profit within a timeframe of five years. On this basis, the Group has adopted a partial recognition based approach. As at December 31, 2018, the Group has unrecognized deferred assets amounting to US$ 26,130 thousand in countries in which the Group operates.

### 4.4 Estimated Impairment of Goodwill

The Group tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy stated in Note 2. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of estimates (see Note 7). Value in use determination is sensitive to changes in the operating profit assumption and discount rate applied.

No impairment charge has been recognized over the periods presented.

As at December 31, 2018, the goodwill is allocated to cash generating units corresponding to the following operating / geographical segments:

| | |
|---|---|
| Mining activity – Africa | 677 |
| Water activity – Africa | 1,735 |
| Mining activity – North America. | 8,358 |
| Mining activity – Asia-Pacific | 7,162 |
| Mining activity – South America | 56,629 |
| Mining activity – Europe | 3,668 |
| **Total goodwill as at December 31,** | **78,229** |

The assumptions used involve a considerable degree of estimation on the part of management. Actual conditions may differ from the assumptions and thus actual cash flows may be different to those expected with a material effect on the recoverability of each cash generating unit. The most significant assumptions made for the determination of expected discounted cash flows covering the next 5 years are:

- 2019 to 2023 management's business plan
- A discount rate of 9.3%
- A 1% long term growth applied to the terminal value.

Management believes that the assumptions used to evaluate potential impairment are reasonable. However, such assumptions are inherently subjective.

Based on the assumptions made, the expected discounted future cash flows exceeded each of the long lived asset's carrying amount for each geographic region and accordingly no impairment was recognized. Except for South America, an increase in the discount rate of 1% or a reduction of the long term growth to 0% would not change the outcome of the impairment testing. For South America, the breakeven point is reached with a discount rate of 10.0% or a long-term growth limited to 0.0%.

## 4.5 Depreciation of Property and Equipment

Equipment is often used in a hostile environment and may be subject to accelerated depreciation. Management considers the reasonableness of useful lives and whether known factors reduce or extend the lives of certain assets. This is accomplished by assessing the changing business conditions, examining the level of expenditures required for additional improvements, observing the pattern of gains or losses on disposition, and considering the various components of the assets.

## 4.6 Inventory Allowance on Spare Parts and Slow Moving Items

Spare parts relate to equipment which may be used in a hostile environment. Management assesses the level of provision for spare parts together with its review of the equipment as described above.

## 4.7 Contracts in Progress

The Group records profit and revenue of contracts in progress based on the percentage-of-completion method. Key aspects of the method are the determination of the appropriate extent of progress measured by the number of meters drilled towards completion and the assessment of the margin to be generated by the overall contract. Management follows up the contracts in progress and their related margins on a monthly basis. On a regular basis, controls are performed on site.

## 4.8 Income Taxes

The Group is subject to income taxes in numerous jurisdictions. Significant judgment is required in determining the worldwide provision for income taxes. There are certain transactions and calculations for which the ultimate tax determination is uncertain. The Group recognizes liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred income tax assets and liabilities in the period in which such determination is made.

## 4.9 Share-based Payment Transactions

The fair value of share-based payment transactions is based on certain assumptions from management. The main area of estimates relates to the determination of the fair value of equity instruments granted:

- for free shares, the main assumption used in the determination of the share-based payment expense is the turnover assumption retained to assess the number of equity instruments that are expected to vest. In 2018, the Group used a 10% turnover assumption (in 2017 – 10% and 2016 – 10%) which is consistent with the Group's experience of employee departures.

Details of share-based compensation are disclosed in Note 22.

## 4.10 Determination of the Fair Value of Assets Acquired and Liabilities Assumed in Business Combinations

As part of the debt reorganization dated May 11, 2017, a French trust was formed owning 100% of the shares of Foraco Chile, Foraco Canada, Foraco Holding Participaçoes, and Foraco Australia, 95% of the shares of Foraco SASU and Geode International and 51% of shares of Servitec Foraco Sondagem ("the Subsidiaries"). The trust is governed by the terms of a deed under which the trustee acts under the instructions of the Company. Only in case of the occurrence of certain triggering events and after a resolution dispute process, the trustee would then act under the instructions of the New Lenders and would be entitled to sell the secured shares. Therefore as long as the Company meets its obligations, the Subsidiaries are considered to be under the control of the Company for the purpose of the Consolidated Financial Statements.

## 5. SEGMENT INFORMATION

The chief operating decision makers (Chief Executive Officer and Vice-Chief Executive Officer) make decisions about resources to be allocated to segments and assess their performance by analyzing revenues and operating profits for business segments and sales for geographic segments. The Group does not identify or allocate assets, liabilities or cash flows to group segments nor does management evaluate the segments on this criteria on a regular basis.

### 5.1 Business Segments

As at December 31, 2018, the Group is organized on a worldwide basis with two main business segments.

- The "Mining" segment covers drilling services offered to the mining and energy industry during the exploration, development and production phases of mining projects.
- The "Water" segment covers all activities linked to the construction of water wells leading to the supply of drinking water, the collection of mineral water, as well as the control, maintenance and renovation of the existing installations. This segment also includes drilling services offered to the environmental and construction industry such as geological exploration and geotechnical drilling.

The accounting policies of the segments are the same as those described in the summary of significant accounting policies as discussed in Note 2.

The business segment information for the years ended December 31, 2018, 2017 and 2016 was as follows:

| **Year ended December 31, 2018** | **Mining** | **Water** | **Group** |
|---|---|---|---|
| Revenue | 174,940 | 5,106 | 180,046 |
| Gross profit | 22,101 | (216) | 21,885 |
| Operating profit / (loss) | 2,234 | (1,120) | 1,114 |
| Finance (costs) / profits | — | — | (8,891) |
| **Profit / (loss) before income tax** | — | — | **(7,777)** |
| Income tax (expense) / profit | — | — | (2,853) |
| **Profit for the year** | **—** | **—** | **(10,630)** |

| **Year ended December 31, 2017** | **Mining** | **Water** | **Group** |
|---|---|---|---|
| Revenue | 127,944 | 7,793 | 135,737 |
| Gross profit | 14,920 | (788) | 14,132 |
| Operating profit / (loss) | (4,785) | (1,955) | (6,740) |
| Finance (costs) / profits | — | — | (6,158) |
| **Profit / (loss) before income tax** | — | — | **(12,898)** |
| Income tax (expense) / profit | — | — | 1,612 |
| **Profit (loss) for the year** | **—** | **—** | **(11,286)** |

| **Year ended December 31, 2016** | **Mining** | **Water** | **Group** |
|---|---|---|---|
| Revenue | 102,910 | 12,254 | 115,164 |
| Gross profit | 4,201 | 309 | 4,510 |
| Operating profit / (loss) | (12,723) | (1,642) | (14,366) |
| Finance (costs) / profits | — | — | (3,825) |
| **Profit / (loss) before income tax** | — | — | **(18,191)** |
| Income tax (expense) / profit | — | — | (92) |
| **Profit (loss) for the year** | **—** | **—** | **(18,283)** |

There is no inter-segment revenue.

Corporate costs and overheads are allocated to each business segment based on their revenue. Management considers this approach to be a reasonable basis for determining the costs attributable to the respective segments.

### 5.2 Geographical Segments

The Group operates in four main geographical areas, even though the business is managed on a worldwide basis.

The following is a summary of sales to external customers by geographic area for the years ended December 31, 2018, 2017 and 2016:

| | Year ended December 31, | | |
|---|---|---|---|
| | 2018 | 2017 | 2016 |
| Europe, Middle East and Africa | 44,603 | 42,116 | 38,602 |
| South America | 36,479 | 30,639 | 30,046 |
| North America | 68,012 | 41,901 | 26,115 |
| Asia Pacific | 30,952 | 21,081 | 20,401 |
| **Revenue** | **180,046** | **135,737** | **115,164** |

Revenue from external customers is based on the customers' billing location. Accordingly, there are no sale transactions between operating segments. The Group does not allocate non-current assets by location for each geographical area.

## 6. PROPERTY AND EQUIPMENT

Property and equipment consists of the following:

| | Land and Buildings | Drilling Equipment and Tools | Automotive Equipment | Office Furniture and Other Equipment | Total |
|---|---|---|---|---|---|
| **Year ended December 31, 2016** | | | | | |
| Opening net book amount | 2,412 | 43,357 | 7,810 | 494 | 54,075 |
| Additions | 133 | 6,104 | 585 | 127 | 6,949 |
| Exchange differences | 36 | 2,657 | 214 | 38 | 2,945 |
| Disposals or retirements | (26) | (53) | (41) | - | (120) |
| Depreciation charge | (587) | (15,521) | (3,702) | (283) | (20,093) |
| **Closing net book amount at December 31, 2016** | **1,968** | **36,544** | **4,866** | **376** | **43,756** |
| **Year ended December 31, 2017** | | | | | |
| Opening net book amount | 1,968 | 36,544 | 4,866 | 376 | 43,756 |
| Additions | 128 | 8,236 | 1,109 | 74 | 9,547 |
| Exchange differences | 165 | 2,985 | 302 | 24 | 3,476 |
| Disposals or retirements | (3) | (42) | (3) | (26) | (74) |
| Depreciation charge | (185) | (15,276) | (3,044) | (146) | (18,651) |
| **Closing net book amount at December 31, 2017** | **2,073** | **32,447** | **3,230** | **302** | **38,054** |
| **Year ended December 31, 2018** | | | | | |
| Opening net book amount | 2,073 | 32,447 | 3,230 | 302 | 38,054 |
| Additions | 35 | 12,354 | 437 | 145 | 12,971 |
| Exchange differences | (101) | (1,866) | (505) | (26) | (2,498) |
| Disposals or retirements | (1) | (120) | (8) | (1) | (130) |
| Depreciation charge | (216) | (14,889) | (1,337) | (134) | (16,576) |
| **Closing net book amount at December 31, 2018** | **1,790** | **27,926** | **1,817** | **286** | **31,821** |

The depreciation and amortization expense has been charged to the statement of income as follows:

| | December 31, | | |
|---|---|---|---|
| | **2018** | **2017** | **2016** |
| Cost of sales | 16,758 | 18,686 | 20,089 |
| General and administrative expenses | 29 | 31 | 96 |
| **Total depreciation and amortization** | **16,787** | **18,717** | **20,185** |

In 2018, 2017 and 2016 the Group did not record any impairment charge on Property and equipment.

## 7. GOODWILL

Goodwill can be analyzed as follows:

| | **2018** | **2017** | **2016** |
|---|---|---|---|
| **As at January 1,** | **89,169** | **86,401** | **77,239** |
| Exchange differences | (10,940) | 2,768 | 9,163 |
| **As at December 31,** | **78,229** | **89,169** | **86,401** |

In 2018, 2017 and 2016 the Group did not record any impairment charge.

## 8. OTHER NON-CURRENT ASSETS

Other non-current assets consist of the following:

| | December 31, | | |
|---|---|---|---|
| | **2018** | **2017** | **2016** |
| Loans | 71 | 75 | 59 |
| Software | 26 | 25 | 24 |
| Investment in unconsolidated affiliates | 80 | 83 | 82 |
| Deposits and guarantees | 695 | 907 | 1,000 |
| Other non-current receivables | 196 | 85 | 63 |
| **Other non-current assets** | **1,068** | **1,174** | **1,228** |

The investment in unconsolidated affiliates corresponds to the company “Minera Chimù” (Peru), in which the Company holds 31.77%.

## 9. INVENTORIES

Inventories consist of the following:

| | December 31, | | |
|---|---|---|---|
| | **2018** | **2017** | **2016** |
| Spare parts, gross | 16,880 | 16,501 | 15,369 |
| Consumables, gross | 16,052 | 17,319 | 15,322 |
| **Inventories, net** | **32,932** | **33,820** | **30,691** |

Spare parts mainly include motors, wire lines and heads. Spare parts are charged to the statement of income when used on equipment. Consumables mainly include destructive tools, hammers, muds and casing. Consumables are charged to the statement of income when delivered to the field. The Group reviews impairment loss on inventories on a regular and item by item basis.

Inventories write-down expense / (reversal) recognized in 2018 in the statement of income under the line item “Cost of sales” amounts to US$ 10 thousand (US$ 17 thousand in 2017 and US$ 43 thousand in 2016) .

## 10. TRADE RECEIVABLES

Trade receivables, net, consist of the following:

| | December 31, | | |
|---|---|---|---|
| | **2018** | **2017** | **2016** |
| Trade receivable, gross | 33,283 | 23,417 | 23,256 |
| Less provision for impairment | (1,430) | (1,342) | (1,367) |
| **Trade receivables, net** | **31,853** | **22,075** | **21,889** |

Impairment expense / (reversal) recognized in 2018 in the statement of income amounted to US$ (234) thousand (nil in 2017 and US$ (40) thousand in 2016) under the line item "Selling, general and administrative expenses".

Movements in the provision for impairment of trade receivables are as follows:

| | December 31, | | |
|---|---|---|---|
| | **2018** | **2017** | **2016** |
| Provision for impairment at January 1, | (1,342) | (1,367) | (1,459) |
| Provision for receivables impairment | (234) | — | (50) |
| Receivables written off during the year | — | — | — |
| Unused amounts reversed during the year following collection of the receivable | — | — | 90 |
| Exchange differences | 146 | 25 | 52 |
| **Provision for impairment at December 31,** | **(1,430)** | **(1,342)** | **(1,367)** |

Trade receivables, net, are broken down per location as follows:

| | December 31, | | |
|---|---|---|---|
| | **2018** | **2017** | **2016** |
| Europe | 4,630 | 2,146 | 2,422 |
| New Caledonia | 362 | 657 | 339 |
| Africa | 3,437 | 4,864 | 6,448 |
| South America | 7,914 | 4,467 | 5,119 |
| Australia | 3,868 | 3,825 | 4,378 |
| Canada | 11,642 | 6,116 | 3,183 |
| **Trade receivables, net** | **31,853** | **22,075** | **21,889** |

The geographical allocation of a receivable is based on the location of the project to which the receivable relates and not to the country where the client is incorporated.

The fair value of trade accounts receivable based on discounted cash flows does not differ from the net book value as the Group does not have trade accounts receivable with payment terms exceeding one year.

The impairment of receivables relates to various customers in both of the Group's operating segments on which a collectability risk was identified.

The maximum exposure to credit risk at the reporting date is the carrying value of each class of trade receivables mentioned above.

As at December 31, 2018, trade receivables of US$ 3,818 thousand (US$ 2,409 thousand in 2017 and US$ 2,744 thousand in 2016) were past due but not impaired. These relate to a number of customers for whom there is no recent history of default or with established practices of long payment terms such as States bodies in the Water segment.

The carrying amounts of the Group's trade receivables are denominated in the following currencies:

| | December 31, | | |
|---|---|---|---|
| | **2018** | **2017** | **2016** |
| €, CFA Francs or CFP Francs (1) | 4,185 | 6,535 | 7,802 |
| Canadian dollars | 11,008 | 5,088 | 3,155 |
| Australian dollars | 3,868 | 3,837 | 4,378 |
| US dollars | 634 | 54 | 28 |
| Chilean Pesos | 2,762 | 1,699 | 1,345 |
| Brazilian Reals | 4,947 | 2,701 | 3,775 |
| Russian Rubles | 4,243 | 2,098 | 1,406 |
| Argentinian Pesos | 206 | 63 | — |
| **Trade receivables, net** | **31,853** | **22,075** | **21,889** |

*(1) CFA Francs and CFP Francs have a fixed exchange rate with €*

Certain receivables are provided as collateral under financing agreements (see Note 14).

## 11. OTHER CURRENT RECEIVABLES

Other current receivables consist of the following:

| | December 31, | | |
|---|---|---|---|
| | **2018** | **2017** | **2016** |
| VAT / GST and other recoverable taxes | 5,015 | 6,764 | 7,230 |
| Prepaid expenses | 4,293 | 3,347 | 3,909 |
| Down payments / credit notes receivable | 873 | 842 | 436 |
| Other receivables | 1,366 | 2,459 | 1,640 |
| **Other current receivables** | **11,547** | **13,412** | **13,215** |

Provisions for impairment of other current receivables is nil as at December 2018 (nil in 2017 and nil in 2016).

VAT / GST and other recoverable taxes mainly comprise tax receivables in African countries and Brazil. There is no indication that these amounts will not be recovered.

The fair value of other current receivables based on discounted cash flows does not differ from the net book value as the Group does not have other current receivables with payment terms exceeding one year.

The carrying amounts of the Group's other receivables are denominated in the following currencies:

| | December 31, | | |
|---|---|---|---|
| | **2018** | **2017** | **2016** |
| €, CFA Francs or CFP Francs (1) | 4,669 | 6,073 | 6,008 |
| Canadian dollars | 2,326 | 762 | 1,046 |
| Australian dollars | 439 | 1,341 | 599 |
| Chilean Pesos | 751 | 850 | 947 |
| Russian Rubles | 679 | 1,477 | 454 |
| Brazilian Reals | 2,201 | 2,289 | 3,281 |
| Other currencies | 482 | 620 | 880 |
| **Other current receivables, gross** | **11,547** | **13,412** | **13,215** |

*(1) CFA Francs and CFP Francs have a fixed exchange rate with €*

## 12. CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of the following:

| | December 31, | | |
|---|---|---|---|
| | 2018 | 2017 | 2016 |
| Cash at bank and in hand | 8,692 | 12,718 | 5,151 |
| Short-term bank deposits | 2,396 | 1,857 | 1,053 |
| **Cash and cash equivalents** | **11,088** | **14,575** | **6,204** |

Short term bank deposits are analyzed as follows at the end of each period presented:

| Financial institution | Type | Index | Fair value as a December 31, 2018 in thousands US$ |
|---|---|---|---|
| VTB | RUB monetary marketable security | Fixed | 1,089 |
| Rosbank (Societe Generale Group) | RUB monetary marketable security | Fixed | 858 |
| Sberbank | RUB monetary marketable security | Fixed | 449 |
| **Total** | | | **2,396** |

## 13. EQUITY ATTRIBUTABLE TO THE COMPANY'S EQUITY HOLDERS

Consolidated reserves, including net income for the period and other reserves, can be analyzed as follows:

| | | December 31, | | |
|---|---|---|---|---|
| | | 2018 | 2017 | 2016 |
| Foraco International share premium and retained earnings | | 71,947 | 79,208 | 70,783 |
| Reserves of consolidated subsidiaries | 65,50 | 78,526 | 81,772 | 100,878 |
| Other reserves | | (114,478) | (97,902) | (87,248) |
| **Total consolidated reserves** | | **35,995** | **63,078** | **84,413** |

Under French law, dividends can be paid only from the reserves of the parent company (Foraco International). As at December 31, 2018, the value of distributable reserves amounted to € 62,705 thousand (€ 66,089 as at December 31, 2017 and € 67,244 thousand as at December 31, 2016).

All shares issued by the Company have a par value of € 0.015 and are fully paid.

Items included in other reserves can be analyzed as follows:

| | December 31, | | |
|---|---|---|---|
| | 2018 | 2017 | 2016 |
| Employee share-based compensation, net of tax | 6,689 | 6,508 | 6,378 |
| Use of treasury shares | (4,256) | (4,069) | (3,973) |
| Currency translation differences and net investment hedge, net of tax | (116,911) | (100,341) | (89,653) |
| **Other reserves** | **(114,478)** | **(97,902)** | **(87,248)** |

## Treasury Shares Transactions over the Periods Presented

The Company filed a notice on October 4, 2016, in respect of an additional NCIB with the TSX. The Company was entitled to purchase up to 1,000,000 additional common shares. Under this plan, the Company purchased 193,927 at an average price of 0.30.

The Company filed a notice on October 12, 2017, in respect of an additional NCIB with the TSX. The Company was entitled to purchase up to 1,000,000 additional common shares. Under this plan, the Company purchased 189,500 at an average price of 0.38.

The Company filed a notice on October 23, 2018, in respect of an additional NCIB with the TSX. The Company was entitled to purchase up to 1,000,000 additional common shares. Under this plan, the Company purchased 18,500 at an average price of 0.46.

As at December 31, 2018, the Company owns 16,269 of its own shares (182,268 of its own shares as at December 31, 2017 and 233,512 as at December 31, 2016).

## Equity Incentive Plan ("Free Share Plan")

In 2007, 2010, 2013 and 2016, the Group implemented free share plans. Between 2007 and 2018, 7,692,000 free shares were granted of which 3,641,000 were vested and 1,131,000 were forfeited.

## Reconciliation of the Share Capital and Premium

The reconciliation of the share capital and share premium at the beginning and end of the year presented is summarized as follows:

| | Number of shares | Ordinary shares in thousand US$ | Share Premium in thousands US$ |
|---|---|---|---|
| Acquisition of treasury shares | (228,633) | — | — |
| Treasury shares transferred in connection with equity incentive plan (vested shares) | 498,000 | — | 170 |
| **As at December 31, 2016** | **89,718,286** | **1,772** | **95,238** |
| Acquisition of treasury shares | (153,757) | — | — |
| Treasury shares transferred in connection with equity incentive plan (vested shares) | 205,000 | — | 59 |
| **As at December 31, 2017** | **89,769,529** | **1,772** | **95,297** |
| Acquisition of treasury shares | (232,000) | — | — |
| Treasury shares transferred in connection with equity incentive plan (vested shares) | 398,000 | — | 110 |
| **As at December 31, 2018** | **89,935,529** | **1,772** | **95,407** |

As at December 31, 2018, the capital stock of the Company amounted to US$ 1,772 thousand, divided into 89,951,798 common shares. The total common shares and warrants of the Company are distributed as follows:

| | Number of shares |
|---|---|
| Common shares held directly or indirectly by principal shareholders | 37,594,498 |
| Common shares held directly or indirectly by individuals in their capacity as members of the Board of Directors * | 1,161,754 |
| Common shares held by the Company | 16,269 |
| Common shares held by the public | 51,179,277 |
| **Total common shares and warrants issued and outstanding** | **89,951,798** |
| Common shares held by the Company | (16,269) |
| **Total common shares and warrants issued and outstanding net of treasury shares** | **89,935,529** |

** In the table above, the shares owned indirectly are presented for an amount corresponding to the prorata of the ownership interest*

## 14. BORROWINGS

Financial debt consists of the following as at year-end:

| | December 31, | | |
|---|---|---|---|
| | 2018 | 2017 | 2016 |
| **Non-current** | | | |
| Other bank financings | 131,840 | 128,377 | 31,041 |
| Finance lease obligations | 23 | 74 | 229 |
| Bank overdrafts | — | — | — |
| | **131,863** | **128,451** | **31,270** |
| **Current** | | | |
| Bank overdrafts | 5,506 | 4,178 | 53,794 |
| Obligation under assignment of trade receivables | 1,394 | 1,557 | 543 |
| Other bank financings | 2,697 | 2,921 | 23,634 |
| Finance lease obligations | 43 | 156 | 300 |
| | **9,640** | **8,813** | **78,271** |

Out of the existing debt as at December 31, 2016, € 81,5 million (US$ 92.9 million) was converted into 5-year subordinated debt and €4.3 million of credit lines (US$ 4.9 million) was converted into a 5-year maturity loan.

In May 2017, new bonds net of transaction costs paid during the period amounting to US$ 3.494 thousand generated a net cash inflow of US$ 16,306 thousand during the exchange rate at transaction date.

In 2018, as part of the debt reorganization of May 2017, the Company drew twice € 2.5 million corresponding to the second tranche of the bonds.

The Chilean and Brazilian subsidiaries of the Group transferred receivable balances amounting to US$ 1,394 thousand to banks in exchange for cash as at December 31, 2018 (US$ 2,921 thousand as at December 31, 2017 and US$ 543 thousand as at December 31, 2016). These transactions were accounted for as an assignment of trade receivables with recourse (or collateralized borrowing). In the event that the entities default under the assignment agreement, the banks have the right to receive the cash flows from the receivables transferred. Without default, the entities will collect the receivables and allocate new receivables as collateral.

The carrying amounts of the Group's borrowings are denominated in the following currencies:

| | December 31, | | |
|---|---|---|---|
| | 2018 | 2017 | 2016 |
| € | 129,322 | 123,682 | 80,343 |
| Canadian dollars | 8,946 | 11,287 | 13,641 |
| Australian dollars | 52 | 285 | 325 |
| US dollars | — | — | 12,397 |
| Chilean Pesos | 733 | 959 | 543 |
| Russian Rubles | — | — | — |
| Brazilian Real | 2,450 | 1,050 | 2,291 |
| **Total financial debt** | **141,503** | **137,263** | **109,541** |

In May 2017, the Company reached an agreement with its lenders, and as approved in an extraordinary shareholder meeting, agreed to transfer shares of certain subsidiaries to a trust and to pledge other assets in favor of the lenders as per the terms of the agreement (see note 4.10).

## 15. CONSIDERATION PAYABLE RELATED TO ACQUISITIONS

As at December 31, 2016, 2017 and 2018, there was no consideration payable related to acquisitions.

## 16. DEFERRED INCOME TAX

The French companies of the Group fall under the French consolidation tax regime.

The components of the deferred tax assets and liabilities recorded as at December 31, 2018, 2017 and 2016 are as follows:

| | | | December 31, |
|---|---|---|---|
| | **2018** | **2017** | **2016** |
| **Assets** | | | |
| Pension obligations | 270 | 265 | 216 |
| Property and equipment depreciation differences | 454 | 1,085 | 1,471 |
| Losses carried forward | 26,084 | 28,057 | 19,371 |
| Tax deductible goodwill | 1,353 | 1,479 | 4,671 |
| Other tax temporary differences | 316 | 895 | 1,021 |
| **Total** | **28,477** | **31,781** | **26,750** |
| *To be recovered after 12 months* | *27,273* | *31,781* | *26,750* |
| *To be recovered within 12 months* | *1,204* | — | — |
| **Liabilities** | | | |
| Finance leases | (252) | (365) | (514) |
| Property and equipment depreciation differences | (379) | (190) | — |
| Revenue recognition | (935) | (298) | (322) |
| Other tax temporary differences | (1,304) | (1,255) | (1,117) |
| **Total** | **(2,870)** | **(2,108)** | **(1,953)** |
| *To be recovered after 12 months* | *(2,870)* | *(2,108)* | *(1,953)* |
| *To be recovered within 12 months* | — | — | — |

The gross movement on the deferred income tax net position is as follows:

| | **2018** | **2017** | **2016** |
|---|---|---|---|
| Beginning of the year | 29,673 | 24,796 | 22,828 |
| (Charged)/Credited to the statement of income | (62) | 3,230 | 1,073 |
| Exchange differences | (1,134) | 1,647 | 895 |
| **End of the year** | **28,477** | **29,673** | **24,796** |

Deferred income tax assets are recognized for tax losses carried forward to the extent that the realization of the related tax benefit through the future taxable profits is probable. As at December 31, 2018, US$ 26,130 thousand (2017 – US$ 20,275 and 2016 – US$ 14,775 thousand) in tax losses carried forward are not recognized.

## 17. PROVISIONS

Provisions comprise of the following elements:

| | Pension & Retirement Indemnities Provision | Provision for Tax Uncertainty | Claims & Other Provisions | Total |
|---|---|---|---|---|
| **At January 1, 2016** | **361** | **1,045** | **1,630** | **3,036** |
| Charged to income statement: | | | | |
| — Additional provisions | 25 | — | 1,209 | 1,234 |
| — Unused amounts reversed | — | (220) | — | (220) |
| Used during year | (18) | — | (1,714) | (1,732) |
| Exchange differences | (35) | 4 | 303 | 272 |
| **At December 31, 2016** | **333** | **829** | **1,428** | **2,590** |
| **At January 1, 2017** | **333** | **829** | **1,428** | **2,590** |
| Charged to income statement: | | | | |
| — Additional provisions | 10 | — | 323 | 333 |
| — Unused amounts reversed | — | — | (640) | (640) |
| Used during year | (25) | (108) | — | (133) |
| Exchange differences | 65 | 113 | (13) | 165 |
| **At December 31, 2017** | **382** | **834** | **1,098** | **2,314** |
| **At January 1, 2018** | **382** | **834** | **1,098** | **2,314** |
| Charged to income statement: | | | | |
| — Additional provisions | 21 | — | 106 | 127 |
| — Unused amounts reversed | — | — | — | — |
| Used during year | (10) | (681) | (716) | (1,407) |
| Exchange differences | (6) | (27) | (147) | (180) |
| **At December 31, 2018** | **387** | **126** | **341** | **853** |

The analysis of total provisions is as follows:

| | | | **December 31,** |
|---|---|---|---|
| | **2018** | **2017** | **2016** |
| Current | 466 | 1,932 | 2,258 |
| Non-current (retirement and litigation) | 387 | 382 | 332 |
| **Provisions** | **853** | **2,314** | **2,590** |

The Group faces various forms of litigation and legal proceedings throughout the normal course of business. The Group records a provision for these risks based on its past experience and on facts and circumstances known on the balance sheet date. The Group's Management is of the opinion that the expenses to be incurred in resolving such affairs will not have a significant additional impact on its consolidated financial situation, income or cash flows.

A certain number of claims have been filed by former employees of the Brazilian subsidiary. These claims may result in a cash outflow for the Company. Given the uncertainty surrounding such claims, an amount of US$ 341 thousand has been provided for.

The Company operates in various countries and may be subject to tax audits and employee related risks. The Company is currently facing such risks in certain countries. The Company regularly reassesses its exposure and accounts for provisions accordingly.

## 18. RETIREMENT BENEFIT OBLIGATIONS

Substantially all of the Group's employees, with the exception of those in France, are covered under Government-sponsored health and life insurance benefit plans. Accordingly, the Group has no significant liability to its employees in terms of post-retirement benefits other than pensions and therefore no provision is made.

In France, the Group contributes to the national pension system whereby its obligations to employees in terms of pensions are restricted to a lump-sum length of service award payable at the date the employee reaches retirement age, such an award being determined for each individual based upon years of service provided and projected final salary.

The pension obligation has been estimated on the basis of actuarial assumptions and retirement ages conforming with the law applicable in France, including:

| | | | December 31, |
|---|---|---|---|
| | **2018** | **2017** | **2016** |
| Discount rate | 1.57% | 1.36% | 1.22% |
| Inflation rate | 2.25% | 2.25% | 2.25% |

These retirement indemnities are not funded or covered by pension plan assets. Except in France, the Group does not maintain defined benefit obligations in any country where it operates.

Payments made by the Group for defined contribution plans are accounted for as expenses in the income statement during the period in which they were incurred.

## 19. TRADE AND OTHER PAYABLES

Trade and other payables consist of the following:

| | | | December 31, |
|---|---|---|---|
| | **2018** | **2017** | **2016** |
| Trade payables | 22,361 | 18,055 | 11,458 |
| Social security and other taxes | 9,862 | 6,183 | 6,583 |
| VAT / GST and other tax payable | 3,100 | 4,149 | 3,144 |
| Down payments from customers | 1,636 | 1,897 | 1,073 |
| Deferred income | 193 | 94 | 233 |
| Other miscellaneous payable | 2,305 | 2,249 | 1,955 |
| **Trade and other payables** | **39,457** | **32,627** | **24,446** |

Trade and other payables are denominated in the following currencies:

| | | | December 31, |
|---|---|---|---|
| | **2018** | **2017** | **2016** |
| €, CFA Francs or CFP Francs (1) | 10,412 | 10,694 | 9,727 |
| Canadian dollars | 9,229 | 7,594 | 2,706 |
| Australian dollars | 4,128 | 2,696 | 2,414 |
| US dollars | 408 | 109 | 1,905 |
| Chilean Pesos & UF | 3,192 | 2,496 | 1,848 |
| Russian Rubles | 4,076 | 3,166 | 1,168 |
| Brazilian Reals | 6,603 | 4,351 | 3,854 |
| Other currencies | 1,409 | 1,521 | 825 |
| **Trade and other payables** | **39,457** | **32,627** | **24,446** |

*(1) CFA Francs and CFP Francs have a fixed exchange rate with €*

## 20. EXPENSES BY NATURE

Operating expense / (income), net by nature are as follows:

| | 2018 | 2017 | 2016 |
|---|---|---|---|
| Depreciation, amortization and impairment charges | 16,787 | 18,717 | 20,185 |
| Provision increase/(reversal) | (965) | (318) | (897) |
| Raw materials, consumables used, and other external costs | 84,323 | 62,044 | 57,071 |
| Employee benefit expense | 76,316 | 61,174 | 52,209 |
| Other tax expense | 1,547 | 1,002 | 1,107 |
| Other operating expense/(income), net | (924) | (142) | (145) |
| **Total of operating expenses** | **178,932** | **142,477** | **129,529** |
| *Number of employees (unaudited)* | *1,882* | *1,526* | *1,536* |

## 21. OTHER OPERATING INCOME (EXPENSE), NET

Within other income and expenses is the provision recorded during the previous years regarding claims from former employees of the Brazilian subsidiary mainly related to prior periods, including prior to its acquisition, as disclosed in Note 17 (US$ 1,098 thousand for the year ended December 31, 2017 and US$ 1,209 for the year ended December 31, 2016).

In 2013, JND's former shareholders filed a claim against the Company as their assessment of the earn-out clause differed from that of the Company. Following several legal proceedings, in April 2016, the Company finally agreed on a settlement to terminate the costly procedures which had an uncertain outcome. The settlement amounting to US$ 900 thousand was recorded in the first quarter of 2016 and paid in June 2016.

| | 2018 | 2017 | 2016 |
|---|---|---|---|
| Other operating income | — | — | — |
| Addition to provision for former employees of Servitec, net | — | (465) | (1,209) |
| Settlement of dispute | — | — | (900) |
| **Other operating income (expense), net** | **—** | **(465)** | **(2,109)** |

## 22. SHARE-BASED COMPENSATION

The effect on the income statement of equity instruments awarded as part of the IPO and the Group's Equity Incentive Plan are as follows:

| | | | December 31, |
|---|---|---|---|
| | 2018 | 2017 | 2016 |
| 512,000 free common shares in 2007 | — | — | — |
| 424,000 free common shares in 2008 | — | — | — |
| 531,000 free common shares in 2009 | — | — | — |
| 500,000 free common shares in 2010 | — | — | — |
| 809,000 free common shares in 2011 | — | — | 257 |
| 804,000 free common shares in 2012 | — | 192 | 252 |
| Nil in 2013 | — | — | — |
| 775,000 free common shares in 2014 | 37 | 59 | 68 |
| 765,000 free common shares in 2015 | 24 | 28 | 9 |
| 827,000  free common shares in 2016 | 56 | 14 | — |
| 947,000 free common shares in 2017 | 13 | — | — |
| 823,000 free common shares in 2018 | 13 | — | — |
| **Total of non-cash share-based compensation expenses** | **180** | **130** | **293** |

Movements in the number of free shares and warrants outstanding are as follows:

| | Free shares | Warrants |
|---|---|---|
| Granted in 2007 | 512,000 | 833,350 |
| Granted in 2008 | 424,000 | — |
| Granted in 2009 | 531,000 | — |
| Vested in 2009 | (156,000) | — |
| Forfeited in 2009 | (7,000) | (833,350) |
| Granted in 2010 | 500,000 | — |
| Vested in 2010 | (253,000) | — |
| Forfeited in 2010 | (10,000) | — |
| Granted in 2011 | 809,000 | — |
| Vested in 2011 | (626,000) | — |
| Forfeited in 2011 | (123,000) | — |
| Granted in 2012 | 804,000 | — |
| Vested in 2012 | (329,000) | — |
| Forfeited in 2012 | (298,000) | — |
| Vested in 2013 | (483,000) | — |
| Forfeited in 2013 | (281,000) | — |
| Granted in 2014 | 775,000 | — |
| Vested in 2014 | (430,000) | — |
| Forfeited in 2014 | (16,000) | — |
| Granted in 2015 | 765,000 | — |
| Vested in 2015 | (263,000) | — |
| Forfeited in 2015 | (86,000) | — |
| Granted in 2016 | 827,000 | — |
| Vested in 2016 | (498,000) | — |
| Forfeited in 2016 | (99,000) | — |
| Granted in 2017 | 947,000 | — |
| Vested in 2017 | (205,000) | — |
| Forfeited in 2017 | (24,000) | — |
| Granted in 2018 | 823,000 | — |
| Forfeited in 2018 | (212,000) | — |
| Vested in 2018 | (398,000) | — |
| | **2,920.000** | **—** |

Considering the vesting conditions described below, free shares outstanding at year end have the following expiry dates:

| | | | **December 31,** |
|---|---|---|---|
| | **2018** | **2017** | **2016** |
| 2017 | — | — | 210,000 |
| 2018 | — | 654,000 | 751,000 |
| 2019 | 972,000 | 762,000 | 514,000 |
| 2020 | 777,000 | 592,000 | 514,000 |
| 2021 | 613,000 | 699,000 | — |
| 2022 | 553,000 | — | — |
| **Free shares outstanding** | **2,920,000** | **2,707,000** | **1,989,000** |

## Other Share-Based Payment Transaction with Employees (see Note 13)

Awards under the Group's free share plan are within the scope of IFRS 2, Share-based payment as they are issued at a price that is less than the fair value of those equity instruments. From the grant date, the Group will amortize over the corresponding vesting period the fair value of the free common shares granted to employees. There are no performance conditions under the Group's equity incentive plan.

The main provisions of these share plans are as follows:

### Third Free Share Plan

FIRST TRANCHE AWARDED IN 2014

- Grant date ........................................ August 2014
- Number of free shares issued ........................................ 775,000
- Vesting period for the French plan ........................................ 2 years *(1)*
- Vesting period for the International plan ........................................ 4 years
- Fair value of common shares at grant date........................................ Can$ 0.50
- Anticipated turnover........................................ 10%

Total fair value of the plan ........................................ Can$ 271 thousand

SECOND TRANCHE AWARDED IN 2015

- Grant date ........................................ August 2015
- Number of free shares issued ........................................ 765,000
- Vesting period for the French plan ........................................ 2 years *(1)*
- Vesting period for the International plan ........................................ 4 years
- Fair value of common shares at grant date........................................ Can$ 0.22
- Anticipated turnover........................................ 10%

Total fair value of the plan ........................................ Can$ 114 thousand

### Fourth Free Share plan

FIRST TRANCHE AWARDED IN 2016

- Grant date ........................................ August 2016
- Number of free shares issued ........................................ 827,000
- Vesting period for the French plan ........................................ 2 years *(1)*
- Vesting period for the International plan ........................................ 4 years
- Fair value of common shares at grant date........................................ Can$ 0.40
- Anticipated turnover........................................ 10%

Total fair value of the plan ........................................ Can$ 229 thousand

SECOND TRANCHE AWARDED IN 2017

- Grant date ........................................ August 2017
- Number of free shares issued ........................................ 947,000
- Vesting period for the French plan ........................................ 2 years *(1)*
- Vesting period for the International plan ........................................ 4 years
- Fair value of common shares at grant date........................................ Can$ 0.35
- Anticipated turnover........................................ 10%

Total fair value of the plan ........................................ Can$ 229 thousand

THIRD TRANCHE AWARDED IN 2018

- Grant date ........................................ August 2018
- Number of free shares issued ........................................ 823,000
- Vesting period for the French plan ........................................ 2 years *(1)*
- Vesting period for the International plan ........................................ 4 years
- Fair value of common shares at grant date........................................ Can$ 0.40
- Anticipated turnover........................................ 10%

Total fair value of the plan ........................................ Can$ 229 thousand

*(1) Plus an additional 2-year lock up period following the vesting date.*

The impact of this non-cash share-based compensation is presented within "Cost of sales" or "General and administrative expenses" depending on the employee benefiting from the award. The dilutive effect of these awards, if any, is taken into account in the calculation of the diluted earnings per share (see Note 25).

## 23. FINANCE INCOME AND FINANCIAL EXPENSE

Financial income and expense consists of the following:

| | 2018 | 2017 | 2016 |
|---|---|---|---|
| Interest expense | (9,428) | (6,070) | (4,379) |
| Gains on short term deposits | 74 | 78 | 266 |
| Other | (464) | (167) | 287 |
| **Finance costs** | **(8,891)** | **(6,158)** | **(3,825)** |

## 24. INCOME TAX EXPENSE

The income tax rate applicable in France is 33.33% in 2018 excluding the impact of certain additional considerations or reductions depending upon the size of the company. The Group also operates in certain countries in which effective rates of tax may be different.

Income tax expense is presented as follows:

| | 2018 | 2017 | 2016 |
|---|---|---|---|
| Current tax | (2,791) | (1,617) | (1,165) |
| Deferred tax | (62) | 3,230 | 1,073 |
| **Total** | **(2,853)** | **1,612** | **(92)** |

The reconciliation between the income tax expense using the French statutory rate and the Group's effective tax rate can be analyzed as follows:

| | 2018 | 2017 | 2016 |
|---|---|---|---|
| **Income / (loss) before taxes and share of profit from associates** | **(7,776)** | **(12,898)** | **(18,191)** |
| Tax calculated at French tax rate (33.33% for 2018) | (2,592) | (4,299) | (6,063) |
| Effect of different tax rates in different countries | (670) | (667) | 148 |
| Share-based payment expense | 60 | 43 | 98 |
| Expenses not deductible for tax purposes | 200 | 110 | 260 |
| Unrecognized deferred tax assets | 5,855 | 3,200 | 5,649 |
| **Total** | **2,853** | **(1,612)** | **92** |

## 25. EARNINGS PER SHARE

Basic earnings per share are calculated by dividing the profit attributable to equity holders of the Group by the weighted average number of ordinary shares issued during the year excluding shares purchased by the Group and held as treasury shares. The Group has also issued certain dilutive equity instruments under its free share plans (see Note 13 and 22).

| | 2018 | 2017 | 2016 |
|---|---|---|---|
| **Profit / (loss) attributable to equity holders of the Company in thousands of US$** | **(10,617)** | **(10,740)** | **(18,014)** |
| Weighted average number of ordinary shares in issue before dilution | 89,745,911 | 89,661,727 | 89,492,984 |
| **Basic earnings per share (US cents per share)** | **(11.83)** | **(11.98)** | **(20.13)** |
| Weighted average number of ordinary shares in issue after dilution *(1)* | 91,973,458 | 90,952,717 | 90,592,697 |
| **Diluted earnings per share (US cents per share)** | **(11.83)** | **(11.98)** | **(20.13)** |

*(1) Reflect the effect of free shares issued and outstanding at each reporting period end (see Note 22). A calculation is performed to determine the number of shares that could have been acquired at fair value (determined as the average annual market share price of the Company's shares) based on the monetary value attached to outstanding free shares. The number of shares calculated as above is compared with the number of shares that would have been issued. Only free shares have a dilutive effect over the periods presented.*

Dilutive instruments cannot have an anti-dilutive effect in case of a net loss attributable to the equity holders of the Company. Therefore, the basic and diluted earnings per share are the same for the years presented.

## 26. DIVIDENDS PER SHARE

On March 29, 2019, the Board of Directors proposed that no dividends are paid out in 2019 (nil in 2018 and 2017), this decision is yet to be approved by shareholders at the Company's Annual General Meeting on May 7, 2019.

## 27. COMMITMENTS AND CONTINGENCIES

The guarantees given are the following:

| | | | December 31, |
|---|---|---|---|
| | **2018** | **2017** | **2016** |
| Bid bonds | 83 | 594 | 74 |
| Advance payment guarantees and performance guarantees | 505 | 1,320 | 2,960 |
| Retention guarantees | 184 | 1,592 | 1,552 |
| Financial guarantees | 886 | 512 | 13,303 |
| **Total** | **1,658** | **4,018** | **17,889** |

The Group entered into an operating lease with a related party in respect of its premises in Lunel for a term of nine years with an annual rent of € 226 thousand for 2018. This lease will end in 2026 representing a total remaining commitment amounting to € 1,808 thousand.

Other operating lease commitments for future periods are not material as at December 31, 2018, 2017 and 2016.

As part of the debt reorganization, a pledge was granted over 100% of the shares of Foraco Resources and Foraco Management and 5% of the shares of Foraco SASU and Geode International.

Generally, the Group is subject to legal proceedings, claims and legal actions arising in the ordinary course of business. The Group's management does not expect that the ultimate costs to resolve these matters will have a material adverse effect on the Group's consolidated financial position, results of operations or cash flows.

## 28. RELATED PARTY TRANSACTIONS

As at December 31, 2018, the companies under the control of management hold 41.8% of the shares. 58.2% of the shares are listed on the Toronto Stock Exchange (excluding treasury shares owned by the Company).

Key management compensation is as follows:

| In thousand € | Wages, attendance fees and bonuses | Share-based payment expense | Other benefits | Total |
|---|---|---|---|---|
| Key management | 2,092 | — | — | 2,092 |
| Board of Directors members other than key management | 60 | — | — | 60 |
| **Year ended December 31, 2018** | **2,152** | **—** | **—** | **2,152** |
| Key management | 2,124 | — | — | 2,124 |
| Board of Directors members other than key management | 60 | — | — | 60 |
| **Year ended December 31, 2017** | **2,184** | **—** | **—** | **2,184** |
| Key management | 1,042 | — | — | 1,042 |
| Board of Directors members other than key management | 60 | — | — | 60 |
| **Year ended December 31, 2016** | **1,102** | **—** | **—** | **1,102** |

The Group did not contribute to any special pension scheme for management.

During the year, the Group paid lease rental amounting to € 226 thousand to a related party (€ 224 thousand in 2017 and € 218 thousand in 2016).

During the year, the Company entered into a drilling contract with a company of which one of Foraco's Board members is a Director. This transaction was negotiated independently from the related party and represented C$1,825 thousand revenue for the year ended December 31, 2018.

The Group has not carried out any other transactions with related parties.

## 29. EVENTS AFTER THE BALANCE SHEET DATE

There are no post balance sheet events to be reported.

## 30. CONSOLIDATED SUBSIDIARIES

As at December 31, 2018, consolidated subsidiaries are as follows:

| Subsidiaries | Country of incorporation | Direct and indirect percentage of shareholdings |
|---|---|---|
| Foraco International S.A. | France | n.a. |
| Foraco SASU | France | 100% |
| Géode International SASU | France | 100% |
| Foraco Management SASU | France | 100% |
| Foraco Resources SASU | France | 100% |
| Foraco Canada Ltd. | Canada | 100% |
| Foraco Pacifique SASU | New Caledonia | 100% |
| Foraco Australia Pty Ltd | Australia | 100% |
| John Nitschke Drilling Pty Ltd | Australia | 100% |
| Foraco CI S.A | Ivory Coast | 100% |
| Foremi S.A. | Ivory Coast | 51% |
| Foraco Subsahara | Chad | 100% |
| Foraco Senegal | Senegal | 100% |
| Foraco Niger S.A. | Niger | 100% |
| Foraco Sahel Sarl | Mali | 100% |
| Foraco Guinée Sarl | Guinea | 100% |
| Foraco Ghana Ltd | Ghana | 100% |
| Foraco Congo Sarl | Congo | 100% |
| Foraco Burkina Faso | Burkina Faso | 100% |
| Foraco Sondaj Ticaret Sirteki Ltd | Turkey | 100% |
| Foraco Peru SAC | Peru | 100% |
| Foraco Chile SA | Chile | 100% |
| Foraco Argentina SA | Argentina | 100% |
| Foraco Mexico SA | Mexico | 100% |
| Eastern Drilling Company Llc | Russia | 50% |
| Foraco Kazakhstan Servitec | Kazakhstan | 100% |
| Foraco Sondagem S.A. | Brazil | 73% |
| Foraco Holding Participações Ltda | Brazil | 100% |
| Foraco UK | England | 100% |
| Foraco Singapore | Singapore | 100% |

## NOTES

## Corporate Head Office

26 Plage de L'Estaque
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## Board of Directors

Daniel Simoncini (Chairman)
Jean-Pierre Charmensat
Bruno Chabas
Warren Holmes
Jorge Hurtado

## Transfer Agent

Computershare Trust Company of Canada
510 Burrard Street
Vancouver, BC
V6C 3B9

## Auditors

Deloitte & Associés

## Legal Counsel

Fasken Martineau DuMoulin LLP

## Market Data

Shares of Foraco International S.A.
are listed on the Toronto Stock Exchange under the symbol FAR

## Annual General Meeting

May 7, 2019 @ 9:00am
26 Plage de L'Estaque
13016 Marseille, France

## Investor Contact

ir@foraco.com

i3

## Integrity.

We run our business with the highest level of integrity and this value is embedded in all of our daily operations, from the field to our corporate offices.

## Innovation.

The global economic, political and geographic landscape is constantly changing and as a result, so is our work environment.

## Involvement.

A winning culture and entrepreneurial spirit are two of our key differentiators in the industry. We practice a fluid bottom-up-top-down communication.

Foraco International
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